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Canada, Railways and Shipping,
"Standing Committee, 1937"

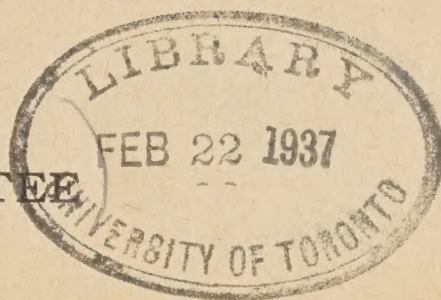
SESSION 1937

HOUSE OF COMMONS

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STANDING COMMITTEE



ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

Land [?] Report

No. 1

TUESDAY, FEBRUARY 16, 1937

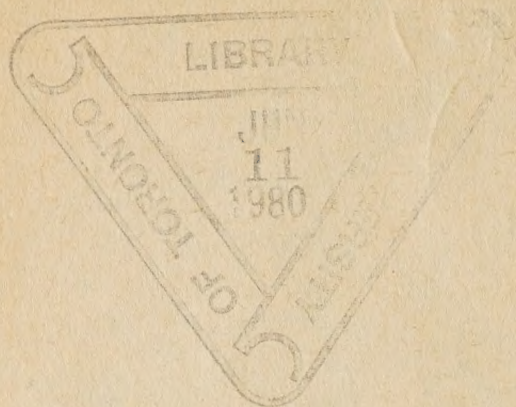
THURSDAY, FEBRUARY 18, 1937

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1937



MEMBERS OF THE COMMITTEE

SIR EUGÈNE Fiset, *Chairman*

and

MESSIEURS

Barber,
Beaubien,
Beaubier,
Bothwell,
Deachman,
Elliott (*Kindersley*),
Ferland,
Fraser,
Hanson,
Heaps,
Howden,

Howe,
Kinley,
McKinnon (*Kenora-Rainy River*)
McLarty,
Maybank,
Parent (*Quebec West and South*),
Ryan,
Stewart,
Vien,
Walsh,
Young.

R. ARSENAULT,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, January 29, 1937.

Resolved,—That Standing Order 63 of the House of Commons, relating to the appointment of Standing Committees of the House, be amended by adding to the Standing Committees of the House for the present session a Standing Committee on Railways and Shipping owned, operated and controlled by the Government to which will be referred the estimates, accounts, and bills relating thereto of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and report to the House; provided, however, that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply, and that said Committee consist of Messrs. Barber, Beaubier, Bothwell, Deachman, Elliott (Kindersley), Ferland, Fiset (Sir Eugene), Fraser, Hanson, Heaps, Howard, Howden, Howe, Kinley, McKinnon (Kenora-Rainy River), McLarty, Maybank, Parent (Quebec West and South), Ryan, Stewart, Vien, Walsh, Young.

Attest.

(Signed) ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, January 21, 1937.

Ordered,—That the Standing Committee on Railways and Shipping be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, February 5, 1937.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 12, An Act to provide for revision of the accounting set-up of the Canadian National Railway System.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, February 16, 1937.

Ordered,—That the said Committee be empowered to print, from day to day, 600 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee have leave to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, February 17, 1937.

Ordered,—That the name of Mr. Beaubien be substituted for that of Mr. Howard on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

FIRST REPORT

TUESDAY, February 16, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as a

FIRST REPORT

Your Committee recommends:—

1. That it be empowered to print, from day to day, 600 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

2. That the Committee have leave to sit while the House is sitting.

All of which is respectfully submitted,

EUGENE Fiset

Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, February 16, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 a.m.

Members present: Messrs. Deachman, Elliott (*Kindersley*), Ferland, Fiset, Hanson, Heaps, Kinley, McKinnon (*Kenora-Rainey River*), McLarty, Parent (*Quebec West and South*), Ryan, Stewart, Vien, Walsh and Young.

On motion of Mr. Young, Sir Eugene Fiset was elected Chairman.

Sir Eugene Fiset took the Chair and expressed his appreciation of the honour conferred upon him. He suggested that the agenda of this day's sitting be limited to organization, subsequent meetings to be devoted to the consideration of Bill No. 12, An Act to provide for revision of the accounting set-up of the Canadian National Railway System, referred to this Committee on February 5.

The Chairman also stated that the President of the Canadian National Railways and the President of the Canadian Pacific Railway had been informed that Bill No. 12 would be considered by the Committee on a date to be determined at this meeting.

The Clerk laid before the Committee a telegram received from W. McL. Clarke, Secretary, Canadian Chamber of Commerce, Montreal, asking permission to appear before the Committee and express their views on the subject matter of Bill No. 12.

Mr. Heaps moved, seconded by Mr. Walsh, that the request of the Canadian Chamber of Commerce be granted and that the same privilege be given to other applicants for a hearing before the Committee on matters related to the Bill under consideration.

After discussion the motion was adopted with the provision that any such requests addressed to the Chairman or the Clerk would be submitted to the Committee for approval.

On motion of Mr. Vien,

Resolved,—That the Committee request permission to print, from day to day, 600 copies in English and 200 copies in French of its minutes of proceedings and evidence.

On motion of Mr. Kinley,

Resolved,—That the Committee request permission to sit while the House is sitting.

It was agreed unanimously that the President of the Canadian National Railways be invited to attend the next meeting of the Committee with the Auditors and other Officials whose attendance he may require.

The Committee adjourned until Thursday, February 18, at 11 o'clock.

THURSDAY, February 18, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Elliott (*Kindersley*), Ferland, Fiset (*Sir Eugene*), Hanson, Heaps, Howe, Kinley, McLarty, Maybank, Parent (*Quebec W. and S.*), Ryan, Stewart, Walsh, Young.

In attendance: Mr. V. I. Smart, Deputy Minister of the Department of Transport, and officials of the Canadian National Railways, including Mr. S. J. Hungerford, President, Mr. J. B. McLaren, Comptroller, Mr. D. C. Grant, Vice-President of Finance, and Mr. T. H. Cooper, Auditor of General Accounts.

Preparatory to the consideration of Bill No. 12, "An Act to provide for revision of the accounting set-up of the Canadian National Railway System", Mr. Howe, the Minister of Transport, read a statement outlining the purposes and provisions of that bill.

Acting on the suggestion of Mr. Walsh, the Committee decided that time should be allowed to consider Mr. Howe's statement with a view to commenting thereon at a future meeting.

The Chairman reminded the Committee of the desire expressed by the Montreal Canadian Chamber of Commerce to be heard respecting Bill No. 12.

The Committee adjourned until Thursday, February 25, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277.

February 18, 1937.

The select standing committee on Railways and Shipping met at 11 o'clock. Sir Eugene Fiset, the chairman, presided.

The CHAIRMAN: Order, gentlemen. I see a quorum. Before starting to examine Bill No. 12, in accordance with the promise made in the House of Commons, the minister desires to read a statement to the committee. Mr. Howe, will you proceed?

Hon. Mr. HOWE: While the statement is being distributed, I might say that in discussing the Bill in parliament I gave only a brief outline of it. I did not attempt a prepared statement. I simply gave the thing from memory. I think it is rather important before we consider it in detail, that I should give a statement on the Bill, or at least give the views of the government on the Bill.

For the information of the Committee I submit a brief outline of the provisions of Bill Number 12.

This is a measure to authorize, along constructive lines, reasonable adjustment of the present unbalanced and excessive capitalization of Canadian National Railways. The adjustment confines itself to the relationship between the Government and the Railway and does not deal, in any way, with the funded debt of the Railway in the hands of the public.

As between the Government and the Railway, the plan preserves in full all capital sums invested by the Dominion in the Railway; any amounts to be eliminated relate to losses in operation and interest charges. Worthless capital stocks are to be written off on the basis of arbitration awards.

At various times the proposal for C. N. R. capital adjustment has been attacked, particularly on the ground of its being some sort of an attempted deception of the people of Canada and as doing violence to the principles of sound finance. Such criticism is without foundation and obscures from the people of Canada the true purposes of the plan with its ultimate advantages to the Dominion and the Railway. It ignores the expressed views of competent and impartial tribunals as well as the terms of the financing legislation since 1932. It runs counter to the usual financial and accounting practices of corporations under similar conditions. Further, this criticism refuses to recognize the effect of the events of the last twenty years on present day realities, in that the position of the Dominion has come to be essentially that of shareholder and proprietor in the Canadian National Railways—not of creditor in the ordinary sense.

At a later point in my remarks I shall deal more specifically with these matters.

Summary of Adjustments: The main purposes of the capital adjustment plan are—

First: to eliminate duplication of liabilities and losses of some One Billion, Five Hundred Million Dollars between the published accounts of the National Railway System and those of the Dominion as shown by Public Accounts.

Second: to centralize the corporate stock control by the Dominion of all companies now comprising the National Railway System through one company, i.e., the Canadian National Railway Company. This preliminary step is co-related to

- (i) the legal amalgamation of certain constituent companies of the system with a view to effecting ultimate savings in accounting and other costs, and
- (ii) the unification of certain funded debt issues of the National Railways through refunding issues in the name of the parent corporation, Canadian National Railway Company, for the purpose of bringing about savings in interest and other costs.

Third: the elimination from the corporate books of those capital stocks determined by arbitration tribunals to be without value;

Fourth: the preservation through the Securities Trust of the priority rights of the Dominion in respect of certain unguaranteed securities and subsidiary company capital stocks held by the public.

The proposed revision of the railway balance sheet does not in any way increase the Net Debt of Canada as shown by Public Accounts. This is because the relative capital stocks (as written down) were acquired without cash payment by the Dominion and because the old debentures, the loans applied for both capital and deficits, the accrued interest on loans and the appropriations for Canadian Government Railways capital investment have already been embodied in the Net Debt of Canada.

A condensed summary of the consolidated balance sheet revision, on the basis of the 1935 accounts, is as follows:—

Write-down of capital stocks and old debentures by concurrent reduction of property accounts.....		\$ 262,770,972 03
Elimination of loans applied for deficits by concurrent reduction of deficit account.....	\$361,244,349 91	
Elimination of accrued interest on loans by concurrent reduction of deficit account.....	495,030,137 29	856,274,487 20
Total reduction in capital and liabilities.....		\$1,119,045,459 23

In addition to the above, the adjustment plan includes the transfer from "Liabilities" to "Dominion Government—Proprietor's Equity" of the following:

Loans applied for capital purposes—represented in the 5 million shares of capital stock of the Securities Trust.....	\$284,283,105 92
Appropriations for Canadian Government Railways capital investment.....	388,290,294 40
	\$672,573,400 32
Transfer of residual value of Canadian Northern capital stock to the Canadian National company and the issuance by the latter of its capital stock.....	18,000,000 00
Total of "Dominion Government—Proprietor's Equity" preserved on the Consolidated Balance Sheet.....	\$690,573,400 32

The detail of these adjustments is shown as Appendices 4 and 5 to the Bill.

The figures used are those of December 31, 1935, which will be revised as of December 31, 1936, when the final figures as of that date are available. The Canadian Northern Railway Company, are the same, the capital stock control of the Canadian Northern group of some 40 companies has not been vested in the Canadian National company but directly in the Government. This creates an unsatisfactory situation in that, since amalgamation in 1923, the financing and refunding operations of the Canadian Northern group has been effected through the Canadian National company without its having proper stock control. The bill provides for the correction of this situation by having the Canadian National company directly control the Canadian Northern group and by having the Government control all the presently existing corporate units of the National System through one corporation, i.e., the Canadian National company.

Write-off Capital Stocks and Debentures

The bill further provides for the writing out of the Canadian National (old Grand Trunk) and Canadian Northern capital stocks and the old Grand Trunk debentures, a summary of which in round figures is as follows:—

Canadian National Co.—Capital Stock (Gross amount 180 million dollars).....	165 million dollars
Old Grand Trunk—Debentures.....	15 million dollars
Canadian Northern Co.—Capital Stock.....	82 million dollars
By reduction of Property Accounts.....	262 million dollars

Canadian National (old Grand Trunk) Capital Stock

The proposal to eliminate the Canadian National stock, as successor issue to the old Grand Trunk 1st, 2nd and 3rd preference and common stocks, from the balance sheet of the National System is based upon the difference between the 1935 and 1936 figures will be the accrual of Government interest and the non-cash deficit items during the year 1936.

It is important to note that any capital investments by the Dominion are continued, at the face value, on the balance sheet without diminution; the amounts eliminated in connection with loans having to do only with the sums lost in operation and accruals of interest.

Centralization of Capital Stock Control

The Bill provides for the centralization of the capital stock control of the companies now comprising the National Railway System through one company, i.e., the Canadian National Railway Company. This preliminary step is co-related to the unification of certain funded debt issues of the National Railways through refunding securities in the name of the parent corporation, Canadian National Railway Company, for the purpose of bringing about savings in interest and related costs of financing. It will also facilitate the legal amalgamation in due course of certain constituent companies of the system with a view to effecting ultimate savings in accounting and other costs.

The National System is comprised of some 100 companies falling under two main groups, i.e., the Canadian National group (including the old Grand Trunk, the Grand Trunk Pacific, the Grand Trunk Western and the Central Vermont) comprised of some 60 companies and the Canadian Northern group comprised of some 40 companies.

Whilst the board of directors for the two parent companies, the Canadian National Railway Company and the 1921 findings of the Grand Trunk Board of Arbitration constituted under the 1919 Act. This tribunal ruled that the capital stocks in question had no value.

Following upon this arbitration award, an appeal was taken to the Privy Council based largely upon the question whether the arbitrators in excluding evidence as to the physical assets of the Company were wrong in law. The Privy Council dismissed the appeal in a judgment delivered on November 10th, 1922.

The recent Lovibond appeal was cited in the early part of 1936 as a reason for the continuance of a negative attitude towards capital adjustment. Since that time the decision of the Privy Council has been announced. It wholly stays the action as against the Attorney General of Canada, and as against the Grand Trunk and Canadian National in so far as it seeks to have the stock register of the Grand Trunk rectified or to have Grand Trunk stock registered in the name of the Plaintiff. The Privy Council states that the Plaintiff has failed in regard to the main object of his action which can now only proceed for the purpose, for whatever it may be worth, of seeking to recover damages against the Grand Trunk and the Canadian National.

This capital stock adjustment is important to the Dominion because the Grand Trunk shareholders, apart from the claim that the acquisition statute was *ultra vires*, presumably have been influenced to some extent by the fact that their stocks were adjudged to be without value when they were the owners but as soon as the Dominion of Canada became owners the successor stock of the Canadian National was issued at par, thereby perpetuating the relative asset accounts at the original book figure. It is believed that if the capital stock is eliminated from the published balance sheet of the National System in accordance with the arbitration award of 1921, some of the misunderstandings would be removed.

Old Grand Trunk Debentures

This adjustment deals with a liability to the Dominion for aid granted to the old Grand Trunk Railway Company of Canada by the Province of Canada prior to Confederation. The Act of 1862, 25 Victoria, Chapter 56, an Act for the reorganization of the Grand Trunk Railway Company of Canada and for other purposes, reorganized the Company's finances and placed the payment of interest on these debentures after, or junior to, the payment of dividends on the preference and common stocks of the company. As the Grand Trunk Arbitration Board of 1921 declared that the Grand Trunk preference and common stocks had no value, and as this item ranks junior to such stocks, it is apparent that this asset account is worthless to the Dominion.

Canadian Northern Capital Stock

The total capital stock of the Canadian Northern, now \$100,000,600, was acquired by the Dominion as under —

- \$ 7,000,000 (70,000 shares) as consideration for subsidies granted to the Canadian Northern Ontario Railway Company and the Canadian Northern Alberta Railway Company as authorized in Act, Chapter 10, of the Statutes of 1913. The total subsidies received under that Act were \$15,364,803.20.
- \$33,000,000 (330,000 shares) in consideration of the guarantee by the Dominion of the principal and interest of the bonds, debentures, etc., amounting to \$45,000,000 as authorized by Act, Chapter 20, 1914.
- \$60,000,000 (600,000 shares) under award of the Board of Arbitration hereinafter referred to, as authorized by Act, Chapter 24, of the Statutes of 1917.
- \$ 600 (6 shares) covering conversion of debenture stock.

The arbitrators in their award of May 1918 gave the value of the 600,000 shares of stock as being \$10,800,000. The award was made as of the date of taking over by the Dominion of complete control of the Canadian Northern Railway System, which was the 30th September 1917. This gave a prorata value of \$18,000,000 to the total issued stock.

The Board of Arbitrators, therefore, found approximately \$82,000,600 of Canadian Northern stock to be without value.

Summary of Duplication

The bill goes on to provide for the elimination of duplication of liabilities and losses aggregating some One Billion Five Hundred Million Dollars in the combined debt structure of the Dominion, i.e., the combination of the published accounts of the National System with those of the Dominion as shown by the Public Accounts. The duplication arises out of the assumption in the net debt of Canada of loans, interest thereon, and capital cost of the Canadian Government Railways concurrently with the inclusion of the same liabilities in the accounts of the National System.

A summary of the major duplications in the combined debt structure of the Dominion, in round figures at the end of 1935, was as follows:—

Loans applied for capital purposes.....	\$ 284,000,000
Loans applied for deficits.....	361,000,000
Accrued interest on above loans.....	495,000,000
	<hr/>
	\$1,140,000,000
Appropriations for Canadian Government Railways Capital Investment	388,000,000
	<hr/>
	\$1,528,000,000

This duplication is to be eliminated by the following revisions on the Consolidated Balance Sheet:

Transfer of loans applied for capital purposes from "Liabilities" to "Dominion Government—Proprietor's Equity" represented by 5 million shares of capital stock of the Securities Trust.. . . .	\$ 284,000,000
Elimination of loans applied for deficits together with accrued interest by concurrent reduction of deficit account.. . . .	856,000,000
	<hr/>
	\$1,140,000,000
Transfer of appropriations for Canadian Government Railways Capital Investment from "Liabilities" to "Dominion Government—Proprietor's Equity".. . . .	388,000,000
	<hr/>
	\$1,528,000,000

It has been contended that this duplication is but a straightforward book-keeping representation of transactions between two separate borrowers, i.e., the Public Treasury in the first instance and the Railways in the second instance. Unfortunately this is but a partial statement of the full facts because the relative assets in the Public Accounts of Canada were transferred from assets to net debt in 1920 and since that time all advances (dealt with in the adjustment plan) have been charged directly to the net debt without any adjustment of the relative liabilities in the Railway accounts. This does not conform to usual commercial and financial accounting practice where any question of consolidation is involved. It has the effect of producing a very real duplication of proportions and of a character such as would not be tolerated by shareholders of parent corporations having financial transactions with controlled subsidiaries whose balance sheets are made public. The published consolidated balance sheet of any corporate group under such conditions would indeed present a sorry picture.

Canada's financial structure as a whole is of first importance to the people of Canada. Nothing should be allowed to continue that would in any way weaken the position that Canada at present holds in the financial world. The people of Canada are rightly entitled to know what is their true financial position at all times and to have access to information that will enable them to understand the situation and to judge therefrom what their real responsibilities are. This being so, the elimination of duplication is of vital importance.

Transfer of capital items from "Liabilities" to "Proprietor's Equity"

The transfer on the balance sheet of the 284 Million Dollars and the 388 Million Dollars from "Liabilities" to "Dominion Government—Proprietor's Equity" represents the amount of loans and appropriations utilized for capital investment and preserved at face value on the balance sheet.

When the lines now comprising the Canadian National Railways were under private ownership, the Government granted loans to the Companies in the form of loan capital rather than share capital. The Government was not then the shareholder and, therefore, required that its investment should have seniority over the share capital. There were certain securities held by the public which were entitled to interest payments if net earnings were available and the assessment of interest charges on the Government loans had the effect of deferring interest on such securities. The Dominion loans and the interest thereon were also factors to be given weight in assessing the value of the Canadian Northern and Grand Trunk capital stocks, the value of which was a matter for arbitration. Out of these conditions there grew up the practice of treating the Dominion's investment as loan capital, and the legislation authorizing the loans generally called for interest at a rate named or to be determined by the Governor in Council. The basic situation was completely changed, however, when the private control disappeared and the securities referred to were later retired—the Dominion coming into possession as the sole shareholder in the parent companies of the National System.

The Canadian Northern, the Grand Trunk Pacific and the Canadian National (including the old Grand Trunk) are today a component part of the proprietorship of the Dominion as in the case of the Canadian Government Railways. The proprietorship in the Canadian Government Railways is complete, whereas the proprietorship in the corporate group is represented by the book equity remaining after the claims of the funded debt in the hands of the public. The fact that Government moneys have been voted as loans does not in any way alter the present reality that the Dominion is loaning money to itself. The National Railways has in the course of events become an integral part of the financial structure of Canada. It cannot now be properly considered as something independent and apart. In view of the funded debt in the hands of the public, the position of the Dominion is, in the final analysis, essentially that of equity ownership regardless of how the problem is approached and this fact might well be made clear to the people of Canada in the published accounts of their railway. The Securities Trust, to which we later refer, will fully preserve in perpetuity any claim priorities which may be deemed to exist.

It has been said that the conversion of any interest bearing Government loans for capital purposes to proprietor's equity represented by capital stock would be unfair to the Canadian Pacific, which company has to raise its capital requirements at interest. In this connection it is of importance to point out that even with the adoption of the adjustment proposals the National System interest bearing burden would still reach 65% in relation to the total capital, as against approximately 50% for the privately owned railway company—or nearly one-third higher. The disparity is even greater in the C. N. R. interest burden in relation to road mileage and gross revenues.

Elimination of Capitalized Deficits

The elimination from the Consolidated Balance Sheet of 856 Million Dollars covering the loans applied for deficits, together with accrued interest, against the Deficit Account is based on the fact that there are no relative assets of any kind and that it represents losses in operation and unearned interest charges. The moneys supplied by the Dominion in respect of the total deficits have only restored its impaired equity as proprietor of the National System and nothing more.

The surplus of any enterprise is the property of the shareholders. It may be paid over to the shareholders or it may be retained in the enterprise. If distributed in its entirety to the shareholders the Profit and Loss Account would be wiped out; if utilized in the business of a company the shareholders' original investment is increased to that extent. Corporate surplus may be either a plus or minus quantity. The position in relation to the shareholders is the same, that is, a deficit diminishes the shareholders' equity just as a surplus adds thereto. If the shareholders put back into the business the amount of the deficiency their capital investment is unimpaired; if not, their equity in the enterprise is reduced by the extent of the deficiency. When the Dominion provides the funds to meet the deficits it is in reality replacing capital as shareholder, not adding to capital as creditor in the ordinary sense. The capital account cannot properly be increased by such payments. The fact that it has been increased in the past, because of the terms of legislation, calls now for an adjustment if sound practices are to be adopted and if present day realities are to be reflected in the Railway accounts. If the loans were reduced on the consolidated balance sheet by the amount of deficit advances there would be no reduction in the Dominion's actual capital investment. The capital investment would be shown for what it is, and the balance sheet would display the real facts so that the railways' present position would be more accurately set forth.

I have heard objection taken to the proposal to eliminate from the liabilities on the Consolidated Balance Sheet the 856 Millions Dollars of capitalized deficits. This objection has been advanced on the grounds that the accumulated costs of the National System must be reflected in perpetuity in the published balance sheet of the Railways and that failure to do so constitutes a deception of the Canadian people. Such an objection is apparently predicated on the theory that "liabilities" and "costs" are inherently the same, and that cash contributions are "investments." Recognized authorities and usual corporate practice not only do not accept this theory but definitely sanction the writing down of capital liabilities under conditions such as presently prevail in the National System accounts.

Further objection to the proposed adjustment has been taken on the ground that freight rate and wage scale negotiations of the future might be influenced by capital adjustment. The theoretical argument that the capital structure of the National System is in some way related to transportation rates and wages is not borne out by practical experience of the past. It is a matter of record, so far as I know, that this inflated capital structure has never been the basis of rate-making and wage scale negotiations by the National System. If it had been the basis the trade of the primary producers and manufacturers of Canada would now be smothered under prohibitive freight rates or, as the alternative, the railway employees would be suffering under the lowest rail wage scales in the universe. As to the future, it is all too evident that rail transportation rates in Canada will be directly influenced by —

- (a) Competitive service of trucks, buses, airlines and inland water carriers.
- (b) Encroachment of obsolescence forcing the development of new types of rail equipment and facilities of much greater economic value than now exist.
- (c) Numerous classes of rate competition with United States Railroads and water carriers.
- (d) Geographical and sectional problems of the country.
- (e) Density of traffic factor as may be affected in the future by immigration trends, world wheat and agricultural requirements, industrial development and general economic conditions.

- (f) Changes in domestic or international monetary policies resulting in inflationary or deflationary trends of a more or less permanent character; and
- (g) Many other conditions beyond the control of the National System and, in my judgment, without any relationship whatsoever to its capital structure of the present or future.

Certainly any fears that the scope of the capital adjustment plan would affect freight rates are groundless.

It is essential that we now examine the views of outside authorities and precedent supporting, in principle, the removal from the consolidated balance sheet of capitalized deficits aggregating 856 million Dollars.

(1) The report of the Drayton-Acworth Commission of 1917, under the chairmanship of Sir Henry Drayton, (page 67) in the consideration of the Inter-colonial Railway includes the following statement on the principle of capitalizing interest deficits: —

It has indeed recently been ingeniously argued that it (the Inter-colonial Railway) ought to have earned interest at a commercial rate from its first inception, and that all the interest that it has not earned during its whole existence ought to be capitalized and compounded to ascertain the real cost of the railway to the people of Canada. We cannot accept this somewhat fantastic argument. If this theory were accepted, it is manifest that a similar course ought to be followed in the case of ordinary railway companies. Interest which, of course, has never been paid, ought to be calculated in the same way, on all the cash subsidies which private lines have received and on the value of all land grants which they have obtained, and all this ought to be carried into an imaginary account on which imaginary earnings ought to be obtained. Further, the capital account of every railway company ought to be recast in the same way, so as to carry forward into the accounts the money that ought to have been paid for dividends on the share capital, in years when either no dividends or only insufficient dividends were in fact paid.

It is significant to note that the Drayton-Acworth Commission regarded the argument for capitalizing interest deficits on Government owned railway as "somewhat fantastic."

(2) The 1925 report of two firms of chartered accountants (Page 5, sub-section 4 of Section "A") as made to the Board of Audit, under the Board of Audit Act of 1925, includes a statement on the capitalizing of operating deficits of the National Railways as follows: —

Advances made by the Government to the Canadian National Railway Company are shown on the books of the Dominion as loans. This is not, however, a proper statement of the investment from the standpoint of the Government, as the portion of these advances made to cover operating losses does not represent added value to the investment. It also pointed out that if operating deficits of the railway be paid from the proceeds of bonds issued to the Public, the Government's investment will be further impaired to that extent. Should it be desired to adjust Public Accounts to a figure which will more clearly show the value of the Government's investment, it is essential that the practice of capitalizing operative deficits be discontinued.

The estimates should provide that advances made to the railways on account of operating deficits be made entirely from the Public Treasury and not from the proceeds of guaranteed bond issues and further that such advances be not added to the investment account but be absorbed in the Consolidated Revenue Fund of Canada.

(3) The Duff Royal Commission of 1931-2, under the chairmanship of the Right Honourable Sir Lyman P. Duff, P.C., made two significant statements on the writing down of the capital liabilities of the National Railways. It will, no doubt, be recalled that this Royal Commission was composed of distinguished Canadians and outstanding railway executives of Great Britain and the United States who it is unthinkable would have made any recommendation for the writing down of the liabilities of the National Railways if such procedure would, in any way, constitute a deception of the Canadian people. In considering the earning power of the railway the Commission (on page 30) said:

It is obvious that on this basis of earnings the Capital Liabilities would require a very drastic writing down.

In recommending the early attention of the Board of Trustees to the whole matter of the capital structure (Page 30) the Commission further emphasized the need of liability adjustment as follows:—

. . . . this Commisison is of the opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National System must be regarded as lost and that its Capital Liabilities should be heavily written down.

The Committee will, no doubt, weigh the relative merits of the claim advanced against the capital adjustment on the ground of its being a deception of the people in contrast to the definite recommendations of this impartial tribunal who took a very different view of the situation.

(4) The Canadian National-Canadian Pacific Act of 1933 (Section 12) implementing the Duff Royal Commission recommendations provides that:—

5. Income deficits shall not be funded.

It has been intimated that this provision deals only with the issuing of railway securities to the public, but the concluding recommendations of the Duff Commission and the legislation implementing the Canadian National-Canadian Pacific Act do not appear to support such a contention. The Duff Commission in recommending that the then existing capital liabilities "should be heavily *written down*" obviously could not have intended that the capital liabilities of the railways be further *increased* by the capitalizing of future deficits voted by parliament in the form of appropriations. Further, the financing legislation subsequent to the passing of the Canadian National-Canadian Pacific Act of 1933 specifically limits the borrowing powers of the railway to capital expenditures and debt refunding and the appropriation acts specifically declare that deficit appropriations should be applied against the accountable advances. The Minister of Finance (Mr. Rhodes) in his budget speech, March 21, 1933, stated:—

One of the recommendations of the Royal Commission on Railways and Transportation, to which effect is being given in the legislation now before parliament, is that sums which are required to meet deficits should be voted by parliament annually. To implement this recommendation, the government has submitted an estimate of \$53,422,661 in respect of the income deficit of the system in 1932, (excluding the loss on eastern lines already provided for by vote). *This amount will be credited against the loans of \$61,500,000, above referred to, leaving a balance owing the government of \$8,077,339, which will remain standing as an interest-bearing loan, representing as it does outlay for capital account and debt reduction.*

All of these facts make very clear that to set up the deficit appropriations since 1932 as liabilities of the railways would not only be improper accounting procedure but would be definitely contrary to the relative legislation.

Again we hear that to write down the loans and accrued interest would do violence to the principles of sound finance. How can this be when the legislation since 1932 is designed to prohibit the capitalization of operating deficits and interest thereon? On the basis of such legislation there is certainly no violence to the principles of sound finance by making the relative legislative provisions retroactive to the period prior to 1932. On the contrary it would only follow the principle of consistency in the treatment of railway accounts.

(5) In point of supporting precedent the capital adjustment plan of the Victorian Railways (Australia) is of importance. Arising out of recommendations made to the Minister of Railways at Melbourne, in 1933, by a special committee appointed to investigate the capital indebtedness of the Victorian Railways, the Government, according to the Commissioners' report dated 29th August, 1936, "has decided to introduce legislation for the purpose of transferring approximately 30 millions (pounds sterling) of railway loan liability to the State's General Account, and that it is proposed to effect the transfer as from the 1st July next." This involves the writing down on the Victorian Balance Sheet of an amount approximating 40 per cent of the liabilities to the Government in respect of accumulated Capital appropriations.

Notice that capital is contrasted with our writing down of deficit appropriations.

Such extraordinary items as Government advances for deficits, accrued interest on deficits, etc., find no place on the balance sheet of the Victorian Railways.

I might say that word has recently been received that the Act has passed the Parliament of Australia and is now the law of the land.

Another important precedent is the Queensland Railways (Australia). The 1936 report of the Commissioner for Railways, made to the Minister for Transport, shows that the Government loans were written down by 28 million pounds sterling, in accordance with "The Railway (Capital Indebtedness) Reduction Act of 1931." On the basis of the 1936 accounts this capital write-down exceeds 40 per cent of the original capital liabilities to the Government. As in the case of the Victorian Railways, no capitalization of deficits, accrued interest on deficits, etc., appear on the balance sheet of the Queensland Railways.

Turning to the South African Railways, it should be noted that the adjustment of capital is a live subject there also. In the report of 1935 the Board of Management suggested that the Government materially reduce the capitalization of the properties.

I would again refer to the matter of usual corporate accounting practice. It certainly supports, in principle, the elimination from the capital liabilities of the National System of the advances for interest and operating deficits which have been excluded from the assets and written into the Net Debt of the Dominion. Usual corporate accounting practice, paralleling the present relationship of the Dominion and the National System, is to write down the published liabilities of subsidiaries on deficit account when the corresponding asset accounts on the published balance sheet of the parent company are written off. This is obviously necessary to avoid loss duplication where the accounts are made public.

It is apparent, without the need of further elaboration, that these authorities and precedents fully sanction, in principle, the elimination of capitalized deficits from the consolidated balance sheet of the National System and particularly so under the existing conditions of duplication in the combined debt structure of the Dominion. It is important also to remember that the adjustment plan contemplates an historical record of accumulated costs since Confederation (for all Canadian railways) in Public Accounts. I will refer to this later.

Apart from these authorities and precedents, it is relevant at this time to make reference to the fact that the so-called "publicly owned" portion of the National System was constituted in the first instance only by the Canadian Government Railways. The corporate portion of the present National System represented by the old Grand Trunk, the Grand Trunk Pacific and the Canadian Northern became "publicly owned" when as private corporations they had reached the stage of financial embarrassment, if not complete bankruptcy. In view of the fact that these corporations did not pass through bankruptcy proceedings the present National System accounts reflect the accumulated errors of the past without the advantages that would have accrued to the National System as now constituted had the privately owned roads been subjected to the usual processes of capital adjustments arising out of bankruptcy proceedings. The Canadian National System was born in insolvency. This fact, I think, calls for consideration by those unfavourable to the capital adjustment because of the fear that the record of the relative merits of so-called "public ownership" and "private" railway operation would be disturbed if the C.N.R. balance sheet were adjusted to a basis of present day realities.

Historical Record of Accumulated Costs

Let us now give consideration to the contention that the National System must show *in perpetuity* on its balance sheet the accumulation of financial assistance from the Dominion Treasury with accrued interest. If the National System is to be required to perpetuate on its balance sheet the accumulation of Government assistance then, as a matter of equitable treatment it would follow that similar requirements should be imposed on other railways in Canada who have received financial aid from the Dominion since Confederation. Would those who oppose the adjustment of the balance sheet of the National System be prepared to subscribe to such a course for other railways in Canada?

Another matter for consideration in connection with this insistence upon the National Railways balance sheet showing "accumulated costs" as liabilities is the fact that there is but one alternative to bring about correction of the present mounting debt duplication, and that is by including the amount of the Government liabilities, as shown on the railway balance sheet, in the assets of the Dominion before the determination of the published Net Debt. Would those who are unfavourable to adjusting the National System capital structure advocate that such a step be taken? It will be remembered that Sir Henry Drayton, as Minister of Finance in 1920, removed the then existing loans and advances from the "assets" shown by Public Accounts to the Net Debt of the Dominion, which action time, in a considerable measure, has justified. No steps, however, were taken in 1920 to provide for adjustment of the capital liabilities on the National Railways balance sheet and from that time debt duplication has been on the increase, now reaching approximately 1,500 Million Dollars.

It is of the utmost importance to point out that the balance sheet and financial accounts of the National System constitute the starting point of all C.N.R. financing, even though the securities bear the Dominion guarantee. The ultimate influence of this debt duplication upon Dominion financing costs of the future is one that surely needs no elaboration. It should also be remembered that the railway accounts are used by publications (read by investors in Canada, Great Britain and the United States) and, at times, apparently, without knowledge of the factual relationship of the railway liabilities to the combined debt position of Canada. The National System accounts are also the source of financial reference by the railroads and security owners associations in the United States. It is, therefore, in the interests of Canada to see that the balance sheet and financial accounts of its own railway do not improperly enlarge upon the

already heavy burden the credit of the country is called upon to bear in respect of its railway enterprise. The aim to have maintained an historical record of Government assistance to the Canadian National does not appear to be a good enough reason to justify the continuance of setting up the System balance sheet in its present form.

From the inception of the proposed capital adjustment plan it has always been considered that the "accumulated costs" of the National System to the Dominion since Confederation should be embodied, in some form, in Public Accounts as a perpetual record for all future parliaments as representing the people of Canada. The form and the extent of detail in such a proposed cost record (which incidentally should cover the total financial aid to all railways in Canada) is a matter that it is assumed will be determined upon the course of the present legislation. In this connection reference is suggested to the annual report of the Department of Railways and Canals, as a component part of Public Accounts, for the fiscal year ended March 31st, 1936, on pages 7 and 14, which has already established a record of "accumulated costs" (apart from interest) of the National System to the Dominion since Confederation. Any statement, therefore, that the adjustment of the C.N.R. balance sheet, as now proposed, would in any way remove from the knowledge or constitute some sort of deception of the Canadian people runs counter to the purposes of the proposed plan and is without any foundation in fact.

Securities Trust

The bill finally provides for the incorporation of "The Canadian National Railways Securities Trust" with a capitalization of 5 million no par value shares to be issued to the Dominion in consideration of the transfer to the Securities Trust of claims for loans and relative collateral together with claims for accrued interest. The Board of the Securities Trust will consist of five trustees, i.e., three Deputy Ministers of the Crown and the President and Financial Vice-President of the Canadian National Railways. The Securities Trust is created solely for the purpose of taking over and perpetuating such priority claims as may be deemed to exist and the underlying collateral against the original debtor corporations in the same way and to the same extent that they are presently held by the Dominion, subject only to the provision for release with the approval of the Governor in Council. Additional details in respect of the Securities Trust will be found in Schedule "A" and in the proposed Balance Sheet as Appendix 6 to the Bill.

CONCLUSION

In conclusion—the government is convinced of the need in the public interest to eliminate from the combined debt structure of the Dominion the existing duplication which must be regarded as being of serious proportions. The burden of the National Railways upon the Dominion is sufficiently heavy without adding, to no constructive purpose, the problem of debt duplication. As we view the present position in this respect the primary consideration is its potential effect upon the future interest and financing costs of National Railways securities under Dominion guarantee, as well as future issues by the Dominion itself, if the pyramiding process is permitted indefinitely to perpetuate itself. In the long range view of future financing the effect and extent of any accretion to the interest costs arising out of debt duplication would not be observed by the people of Canada, nor would it be subject to definite computation by the government itself.

The bill now before the committee provides an effective means of dealing with this situation and the several others to which I have referred in this statement.

The CHAIRMAN: Gentlemen, as this statement has been read into the record, I take it for granted that it is the desire of the committee that it should appear in the printed evidence of the committee itself.

Some Hon. MEMBERS: Yes.

The CHAIRMAN: In accordance with the instructions of the committee, I notified the Canadian Chamber of Commerce of Montreal that we were going to hold a meeting this morning. I do not know if they have any representative here. I suppose that we shall notify them of future meetings. In the meantime, is it the desire of the committee that we should discuss the statement of the minister or that we should go on with the consideration of the Bill?

Mr. WALSH: Mr. Chairman, the committee have only been supplied with this statement this morning. We have heard it read in a very interesting manner by the Minister of Transport. It is rather an illuminating document, and many of the statements contained in that document are not only subject to very careful scrutiny, but they contain many references to past commissions which no doubt many members of this committee would like to carefully investigate and look up, not only for the sake of verifying the detail as given here but to get the context as well as the actual quotation; and in that way we would be in a better position to discuss this statement that has been given.

I was going to ask the chairman if it would be possible from time to time during the course of the discussion of this Bill to have reference to this statement as made by the minister, so that probably the discussion of the statement itself would become part of the regular proceedings from meeting to meeting, in connection with the discussion of items of the Bill.

The CHAIRMAN: That is the very reason why I asked if this statement was to be included in the printed evidence of the committee; so that you will be able to refer it when you wish to do so.

Mr. WALSH: We will not be held up by this suggestion, "Well, that does not pertain to this particular section of the Bill that is under discussion."

The CHAIRMAN: Of course, that is not in accordance with the rules of the house. We are limited in committee as well as in the House of Commons to each item of the Bill which we are considering. It would be preferable, I think, to have a general discussion of the report itself, if the committee desires to do it; then refer to the different items when you are considering the different clauses of the Bill. Of course, I am in the hands of the committee. Whatever you say, I am satisfied to do.

Mr. WALSH: Could we delay the discussion of the report then until the beginning of the next meeting?

The CHAIRMAN: Certainly.

Mr. WALSH: Because there are many points that I have noted here with which I personally cannot place myself in accord; and I would like more time or more opportunity to study them.

The CHAIRMAN: Do I understand it is the desire of the committee that we should adjourn until some time next week, to give the members of the committee time to study that statement of the minister?

Mr. BOTHWELL: Just before that is decided, Mr. Chairman, in answer to Mr. Walsh I would like to suggest that it seems to me that every member of the committee should have the privilege at all times of referring to this statement of the minister when we are dealing with the Bill. That seemed to be the question that arose in Mr. Walsh's mind.

The CHAIRMAN: No, not quite. He says he would like the privilege of referring to the statement itself when we are considering clauses of the Bill, even if it does not refer to the clause under discussion, which is not exactly in accordance with the rules. I am in the hands of the committee. Whatever they decide is satisfactory to me.

Hon. Mr. HOWE: Mr. Chairman, I have tried to follow the clauses fairly logically in this statement. I think you can refer to the report bearing on the clause in question. I do not think there will be any difficulty there.

The CHAIRMAN: As a matter of fact, personally speaking, I think we should give the members of the committee all the latitude they want to discuss the Bill in any way they like.

Mr. BOTHWELL: There is one other matter that I would like to refer to now before adjourning. There are several references here, which I should like to call attention to; for instance on page 22: Would those who oppose the adjustment of the balance sheet of the National System be prepared to subscribe to such a course for other railways in Canada"? and again on page 23: "The form and extent of detail in such a proposed cost record (which incidentally should cover the total financial aid to all railways in Canada) is a matter that it is assumed will be determined upon in the course of the present legislation." I was wondering if the committee would be able to get information as to what that cost sheet might look like if it were prepared in connection with other railways in Canada, because it would be a matter that I think would be of very great interest to the members of the committee; and if it is the intention to set it up in any event, we might be able to get the information at the present time.

Mr. MAYBANK: Is that sentence to be taken as meaning that the picture of that sheet that Mr. Bothwell has referred to will probably be worked out in the course of this committee hearing?

The CHAIRMAN: Well, I was exactly under that impression, that the balance sheet that would be submitted to the committee when the report of the Canadian National Railway is brought down will be made in accordance with the present act.

Mr. MAYBANK: I referred to the expression of the minister.

Hon. Mr. HOWE: There was some discussion on the historical record, and no objection has been taken in the house to it, provided it does not lead to a confused balance sheet. I think the committee might perhaps consider how they want that set up; and I think we can have at the next meeting a statement as regards the Canadian National. In fact, that is published in the report of the Department of Railways and Canals. I think we can perhaps have that.

Mr. MAYBANK: I was just wondering about the inclusion of the other railway.

Hon. Mr. HOWE: I think we can get that. It is all in the public accounts. It is just a matter of segregating it.

Mr. DEACHMAN: It is in the report of the Department of Railways and Canals.

Hon. Mr. HOWE: I think it is.

Mr. HEAPS: I think the request of Mr. Walsh that we postpone consideration of this is fairly well justified. We have just heard it this morning, and have not seen it previously. One other matter occurred to me this morning, and I do not know whether the minister or anybody else present could give the information or not. But after the recapitalization has been made, and after the amount stated of about \$850,000,000 has been wiped out from the Canadian National balance sheet, what would be the actual amount showing against the Canadian National System?

Hon. Mr. HOWE: It is shown in the Bill. It is shown on page 13 of the Bill—\$2,062,387,864.21.

Mr. HEAPS: One other question and then I am through.

The CHAIRMAN: You will find that in appendix 5 and 6.

Mr. HEAPS: Yes. Could the railway give to this committee the information as to what the physical value or replacement value of the system is to-day?

Hon. Mr. HOWE: I can tell you quite definitely that they cannot. It is a matter of opinion. You could put as many experts as you like on it, and I am sure they would all bring back a different report.

Mr. HEAPS: I just wondered what the physical value would be as compared with the prospective book value.

Hon. Mr. HOWE: I do not think there is anyone who can determine that.

Mr. BOTHWELL: A few years ago, I think it was, Touche & Company made a report on the writing down of the capitalization of the Canadian National Railway. I do not know whether that report was ever printed, or whether it was just distributed among the members of the committee. I looked for my copy of it, but apparently I left it at home. I was wondering if anybody knew whether that was printed.

The CHAIRMAN: It was only distributed among the members. It was not printed.

Mr. BOTHWELL: Then there are no copies now available?

The CHAIRMAN: I do not know.

Hon. Mr. HOWE: I think there are.

Mr. MAYBANK: It was distributed about two years ago among the different members.

The CHAIRMAN: Yes.

Mr. MAYBANK: 1934-35.

The CHAIRMAN: 1934, I think. Is it the consensus of opinion that we should adjourn until say Thursday of next week in order to give a chance to the members of the committee to consider the statement?

Mr. WALSH: May I ask one question while the minister is here in connection with the old Intercolonial railway? Just exactly what would be the position of the Intercolonial railway under this new scheme of capitalization? Would this new scheme further smudge the real picture of the construction and operation of that railway as it has reference to the Maritime provinces and confederation, or would it still be maintained as an integral part of the picture of Confederation?

Hon. Mr. HOWE: I think perhaps the hon. member might elaborate on his remark "further smudge" and I will give an answer.

Hon. Mr. STEWART: That is not right.

Mr. WALSH: Of course we all know the history of the construction of the Intercolonial railway and the operation of that railway in the early days. It just occurs to me that the more we deal with the Canadian National system, the less clear is the picture of the construction and early operation of the old Intercolonial railway and the purposes for which that railway was built. We are getting farther and farther away from the real cause of the construction of that railway in the amalgamation of the railways under the C.N.R. and under various events that have taken place even since that day; and now with the recapitalization I am afraid that the promises made by the Dominion of Canada to induce the Maritime provinces to enter Confederation, which led to the construction of the Intercolonial railway and the operation of that railway in the old days, are becoming more and more obscure. That is my reference to "smudge." That is, the delineation is not quite as clear as it was 25 or 30 years ago; and I was wondering if this move is going to further lessen the delineation, the proper delineation, of that picture as it should be in the minds of those who are interested in the development of the Dominion of Canada in the federal arena.

Mr. DEACHMAN: The Maritimes will still be there.

Mr. BOTHWELL: The historical record is there, and we might as well face the situation as it exists.

Hon. Mr. HOWE: It does not change the amount; it is a change from funded debt to common stock. That is the only change that is being made on the balance sheet.

Mr. HEAPS: The railway will still be there.

Hon. Mr. HOWE: Yes.

Mr. WALSH: I know the railway will still be there, but my point is that it is going to further enable us to forget our obligations to the Maritime provinces.

Hon. Mr. HOWE: I do not see that.

Mr. WALSH: I am not a Maritime man myself, but I am a very strong believer in holding to any agreement that has been made. I spent some time in the Maritime provinces this past summer, not enjoying very good health but still with an active mind; and I was very much impressed with my discussions while there, particularly in reference to the Intercolonial railway. I was just wondering if the minister would keep that point in mind, because I want to have reference to it during the discussion of this Bill. I know the Maritime provinces are very able represented on this committee. They are probably better represented than I could hope to represent them. But just from my recent discussions I feel that we as a committee should do something to prevent anything that would lessen or obscure our obligations as undertaken when we built that old Intercolonial railway, even if it is going to cost the taxpayers of the rest of Canada a certain amount of money in taxation. We obligated ourselves in those early days in order to invite them into Confederation; and I feel that we should provide some ways and means of meeting our obligations in that respect.

Mr. HEAPS: I would like to point out to the gentleman who has just sat down that those gentlemen on this committee in previous years who represented the Maritime provinces have been very anxious to obscure the situation as far as they possibly could, have been anxious that it should be merged with the whole of the railway situation in Canada. They did not want the picture to be shown too much, or at least not too vividly, as to the actual conditions in the Maritimes, because the deficits were so huge; they thought that it should become part of the whole Canadian National System. Secondly, I think Mr. Walsh ought to bear in mind that they have a 20 per cent freight rate reduction there which costs the National Treasury quite a large amount each year.

Mr. WALSH: I do not want them to get any more than they are entitled to. But at the same time I want to feel that we are living up to our obligations.

Hon. Mr. HOWE: We changed it from the position of bonded debt to a simple equity, non-interest bearing equity. I think that is of some little assistance, don't you?

Mr. RYAN: Mr. Chairman, I am sure I cannot follow the remarks of Mr. Heaps in this committee. I am somewhat in accord with what has been said by Mr. Walsh. I do not know what has taken place in the past in this committee, or that there was a disposition on the part of the Maritime members to have the picture of the Intercolonial railway submerged as part of the large funded debt. I think, if we have an opportunity of going into the record, we will find out that that is not exactly the case. If you go back through the years you will find out that the Intercolonial railway has, to some extent, paid its way, and we were not in that position. He mentioned the Maritime Freight Rates Act; while that has been of assistance, it is not in any way any contribution on the part of the Dominion government. It was given to us because of the recommendations of the Duncan Commission, which showed the position which the Maritime provinces were placed in because of the way in which the Intercolonial railway was built and the territory through which it had to run. There is an historical aspect in connection with it. I must say that I appreciate Mr. Walsh's bringing that matter before the committee. I think there was some light in this report, though, Mr. Chairman. I am satisfied, or at least I am pleased to note

that the disposition is not to base freight rates on the cost of capital structure. That is some light to the Maritime provinces; because I am satisfied if we were to attempt to base our freight rates on the cost of our capital structure, it would be very detrimental not only to the Maritime railways but all the railways. I say there is some light in the report in that respect. But I am in accord with Mr. Walsh's view that there is a disposition in the Maritime provinces not to have the history of the old Intercolonial Railway lost sight of, and the reason why it was built. We are in a different position than any other railway in the Dominion of Canada. I am not going to take up the time of the committee going into that matter, but the historical picture is there. That railroad was built for defensive purposes and otherwise; and if it had been built along the line of a strictly commercial undertaking, this line probably would have taken a little different construction and had greater earning capacity. But it was built, Mr. Chairman, at that time, with a view to defensive purposes, along other lines; and therefore we were entitled to some consideration. The Duncan Commission recommended that.

I do not think Mr. Walsh, when he used the word "smudge," used it in any offensive way. I think it was simply that he tried to bring before the committee that the railway is gradually being lost sight of. I must say this, that I want to thank him for bringing this matter before the committee, because as a Maritimer I certainly intend to look after the history of the Intercolonial railway in any report that may take place, so far as this committee is concerned.

Hon. Mr. HOWE: I may say in further explanation of the history of the Intercolonial railway, that it was built and paid for out of government revenues—paid for in full. The debt was not funded in any way, and this Bill recognizes that fact. Where it was previously carried on the balance sheet of the Canadian National Railway as a funded debt, it is now changed to a simple equity, proprietor's equity. It is no longer carried as a funded debt. That is the only change that has effect on the Intercolonial railway. I think there can be no objection to that.

Mr. BOTHWELL: I move that we adjourn.

Mr. MAYBANK: I second that.

The CHAIRMAN: Shall we adjourn until Thursday next in order to give a chance to the members of the committee to consider this report?

Some Hon. MEMBERS: Yes.

The committee adjourned at 12.25 p.m. to meet again on Thursday, February 25, at 11 a.m.

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SESSION 1937

HOUSE OF COMMONS



STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

THURSDAY, FEBRUARY 25, 1937

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1937

MINUTES OF PROCEEDINGS

THURSDAY, February 25, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Deachman, Ferland, Heaps, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Maybank, Parent (*Quebec West and South*), Ryan, Stewart, Vien, Walsh, and Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport, and officials of the Canadian National Railways, including Mr. S. J. Hungerford, President; Mr. D. C. Grant, Vice-president of Finance; Mr. J. B. McLaren, Comptroller; and Mr. T. H. Cooper, Assistant Comptroller; also Mr. O. A. Matthews, of George Touche & Company, auditors of Canadian National Railways accounts.

The Chairman submitted a communication addressed to the Chairman of Parliamentary Railways Committee by Mr. R. C. Hawkin, Chairman of the Grand Trunk Senior Stocks Company, Ltd., London, England, enclosing copy of a petition presented in the House of Commons in April, 1930.

On motion of Mr. Heaps,

Ordered,—That Mr. Hawkin's letter and petition annexed thereto be filed.

The Chairman also read a communication from Mr. W. McL. Clarke, Secretary of the Canadian Chamber of Commerce, Montreal, asking to be advised as to the date of the Committee's sittings during the coming week.

The Clerk was instructed to inform Mr. Clarke that the Committee would hear representations to be made on behalf of the Canadian Chamber of Commerce on Tuesday next.

The Committee gave further consideration to the statement read by the Minister of Transport at the previous sitting.

It was agreed to have an official of the Finance Department attend the next sitting of the Committee to explain certain items of the public accounts and their relation to the bill under discussion.

The Committee adjourned until Tuesday, March 2, at 10.30 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

February 25, 1937.

Room 277.

The select standing committee on Railways and Shipping met at 11 o'clock. Sir Eugene Fiset, the chairman, presided.

The CHAIRMAN: Order, gentlemen. I want to inform the committee that I have received a letter from the minister asking me to place before the committee a letter that was addressed to the chairman of the parliamentary railways committee from the Grand Trunk Senior Stocks Company, Ltd., signed by Mr. Hawkin. The letter reads as follows:

Dear SIR:

Will you please ask your committee to consider the petition presented to the House of Commons in April, 1930.

I would like you to note that. He goes on to describe the procedure that has been taken by the Grand Trunk Senior Stocks Company in order to obtain from the government a kind of settlement; and at the conclusion of the letter he says:

We have sent more precise details of our claim to the Hon. the Minister of Justice.

Attached is a copy of the petition that was placed on the table of the house in 1930. I really do not see the object of bringing this before the committee. It has nothing whatever to do with this committee. The matter is at present in the hands of the Department of Justice. A fiat was applied for in 1930 and was refused by the government. It was appealed from and the decision of the Privy Council was given on the subject matter. I understand that now certain claims are before the Ontario court and are really *sub judice*. I do not see how we can ask this committee to place on the table of the house not a petition but a copy of a petition that has already been tabled in 1930. It is not usual to place on the table of the house a copy of a petition. We usually place the original there, and the original was placed on the table of the house in 1930. So therefore, instead of placing this petition on the table of the house, I propose to refer the whole thing to the Department of Justice, as we are informed that they are already in possession of further details in connection with the matter.

Mr. RYAN: To whom is the letter addressed?

The CHAIRMAN: The letter is addressed to the chairman of the parliamentary railways committee. It was sent to me by Mr. Howe; and I think it was handed to Mr. Howe by Mr. Vien, if I am not mistaken.

Hon. Mr. HOWE: Yes.

The CHAIRMAN: We can do nothing. We are not in a position to consider this claim. The matter is in the hands of the Department of Justice. It seems to me that the simplest way would be to send all the documents to the Department of Justice for consideration.

Mr. BOTHWELL: In accordance with your suggestion, Mr. Chairman, I move accordingly, that the matter be referred to the Department of Justice.

The CHAIRMAN: It is moved by Mr. Bothwell, seconded by Mr. Howe, that the correspondence I have received be submitted to the Department of Justice for consideration.

Mr. WALSH: Might I ask who handed that letter to Mr. Howe?

Hon. Mr. HOWE: Mr. Vien.

Mr. WALSH: Is that Colonel Thomas Vien, M.P.?

Hon. Mr. HOWE: Yes.

Mr. WALSH: Colonel Vien is not here at the present time. Would it be well to delay putting the motion to the committee until Colonel Vien has an opportunity to explain the reasons why he gave that letter to the minister?

The CHAIRMAN: I saw Mr. Vien himself, and he explained to me that he simply received the letter. He used the *modus vivendi*. He says he is not interested in the matter, except he wanted me to place this on the table of the house—a thing which cannot be done. So, therefore, I propose to short-circuit it and hand the matter to the Department of Justice for their consideration.

Mr. YOUNG: Is Mr. Vien's name mentioned on that?

Hon. Mr. HOWE: No. It is addressed to the chairman of the parliamentary railways committee.

Mr. YOUNG: That is why I thought it came to him. The only thing I was going to suggest is that, inasmuch as it is a railway matter, that it be sent to the Minister of Transport. We will appear to be making some disposition of this matter by sending it to the Department of Justice and asking them to do something with it. I suggest that we send it to the Minister of Transport and let him do whatever he likes.

Mr. HEAPS: Would it not be better if we just simply tabled that, Mr. Chairman?

The CHAIRMAN: Place it on the table of the house?

Mr. HEAPS: No, table it in this committee.

The CHAIRMAN: I have no objection. But Mr. Vien was of the opinion that this letter should be placed on the table of the house by the chairman of the committee. After perusing the correspondence I note that the last paragraph in this letter states that further details of this claim have been sent to and are in the hands of the Department of Justice at the present time. The petition is not a petition. It is a copy of a petition which has already been tabled, and was placed on the table of the house in 1930. We are not in a position to file a copy of a petition; so I propose simply to send the whole of the documents to the Department of Justice for further action.

Mr. HEAPS: No, Mr. Chairman. It might be a mistake to do anything of that character. If we send a communication from here to the Department of Justice, we are going to ask them to give it full consideration; and, personally, I am not in favour of any other department taking action in this matter, particularly if it is before the courts. I think if we simply table the matter here, that is about as far as we can go. If there is any action to be taken, I presume those who sent this communication to Mr. Vien in the first place will know where to send the correspondence to.

Mr. BOTHWELL: Speaking to the motion again, it does seem to me that since the members of this committee know that the matter has been referred to the Department of Justice and the file is in their hands, we might as well dispose of it, instead of cluttering up the records of this committee, by having all the papers together. We are not committing ourselves in any way by simply stating to the Minister of Justice that we have received this correspondence, that we believe the matter is in his hands, and we are sending it to him.

The CHAIRMAN: That is what I thought.

Mr. RYAN: I would move as an amendment to the motion, that this correspondence be returned to the authors, informing them that we have no jurisdiction to deal with it.

The CHAIRMAN: Mr. Vien is here now.

Mr. VIEN: I should like to bring to the attention of the chairman the fact in the first place a petition is addressed to the House of Commons.

The CHAIRMAN: A copy of the petition is addressed to the House of Commons, which was already tabled—placed on the table of the House of Commons in 1930.

Mr. VIEN: Secondly, that this petition was sent to me by mistake and I drew the attention of the minister to it. I discussed the matter with the clerk of the house, and Dr. Beauchesne tells me that the petition is out of order because it is not properly signed.

The CHAIRMAN: That is exactly what I said.

Mr. VIEN: Therefore you can advise those who have written to you that the petition has already been tabled in the house in 1930; and that a document cannot be filed in the form in which this is submitted because it is not signed by the proper parties.

The CHAIRMAN: I would like to call your attention to the fact that the original copy of this, duly signed, was placed on the table of the house in 1930, and this is simply a copy. Now, is it the desire of this committee to table the copy of the document that has already been tabled? I cannot see any object in doing so.

Mr. KINLEY: I second Mr. Ryan's motion.

Mr. VIEN: I think the parties who have addressed a letter to you should be answered.

Hon. Mr. STEWART: It seems to me that the suggestion made by Mr. Heaps is a regular and proper one: place it on the table of this committee and let it lie there. We are taking no action whatever in connection with it at this stage, but later in the discussion there may be something in it to which we may desire to refer. Apart from that, it is the courteous thing for this committee to do. If we have to deal with it we shall be in a position to do so.

Mr. KINLEY: I seconded Mr. Ryan's motion and I did so for this reason: it is a matter we can do nothing about, and the best thing we can do is to tell them so. Mr. Ryan's motion is to return the document to these people and say we have no authority to do anything about it.

Mr. HEAPS: If we table it we will be following the action in the house in 1930.

The CHAIRMAN: All right. The document will be placed on file.

Now, in accordance with the instructions of the committee we notified the secretary of the Canadian Chamber of Commerce that we would be sitting to-day. The secretary has written to Mr. Clark and Mr. Clark has written to the clerk of this committee asking whether we could possibly notify these people when we would meet next week. Now, I intend, with the consent of the committee, to meet to-morrow morning. Would it be possible to notify them that we will be sitting to-morrow?

Hon. Mr. STEWART: If they are not ready and cannot come I do not presume that would get us very far. Does he ask for time?

The CHAIRMAN: Yes. He says, "Perhaps you will be good enough to advise me when the committee is sitting next week so we can shape our plans accordingly."

Hon. Mr. HOWE: Shall we say next Tuesday?

Mr. YOUNG: It might be a good plan if they shaped their plans to suit this committee. I do not think we are running this committee to suit that Chamber of Commerce or any other Chamber of Commerce. I suggest notifying them to come to-morrow and tell them that they will be heard.

The CHAIRMAN: That is what I had in mind.

Hon. Mr. STEWART: Is not that rather an arbitrary position for this committee to take when a recognized institution like the Canadian Chamber of Commerce, undoubtedly interested in this important question, asks for an opportunity to be heard—to say that we will arbitrarily fix a date and if you do not come you cannot get in.

Mr. KINLEY: Tell them the date when we meet.

The CHAIRMAN: No. I think these people will be absolutely satisfied if we wire them to-day that we are sitting to-morrow; and if they tell us that they cannot be here to-morrow we will hear them next week.

Mr. HEAPS: We are not going to have a special session for them?

The CHAIRMAN: No, no.

The discussion is on the memorandum submitted by the minister.

Mr. KINLEY: Mr. Chairman, we have read with interest this illuminating explanation, but I would ask for some further information with regard to the duplication you speak of. For instance, there is, "Elimination of loans applied for deficits by concurrent reduction of deficit account, \$361,244,349.91" and "Elimination of accrued interest on loans by concurrent reduction of deficit account"

The CHAIRMAN: From what page are you reading?

Mr. KINLEY: From page 3—" . . . \$495,030,137.29." Now, Mr. Chairman, this is real money, of course, and I presume that the money was borrowed on debentures of the Canadian National Railways created by the federal government.

Hon. Mr. HOWE: No.

Mr. KINLEY: It was real money. What I would like to ask is how is this obligation met?

Hon. Mr. HOWE: That is paid from the consolidated fund, loaned from the government.

Mr. KINLEY: It was paid from the consolidated fund of Canada each year. Therefore, it appears in the railway account as a liability to the railroad and the people of Canada.

Hon. Mr. HOWE: Yes.

Mr. KINLEY: It appears in the consolidated account as a contribution to the railway?

Hon. Mr. HOWE: That is right, yes.

Mr. KINLEY: Does it appear in the consolidated account as a liability of the people of Canada?

Hon. Mr. HOWE: It is charged off in the net debt. It is taken into the net debt of Canada which is covered by bonds of the Dominion of Canada.

Mr. KINLEY: Covered by bonds of the Dominion of Canada. Therefore, there is existing for this amount bonds of the federal government.

Hon. Mr. HOWE: They are not earmarked as such.

Mr. KINLEY: They exist.

Hon. Mr. HOWE: There are certain bonds—there is certain money, I suppose.

Mr. KINLEY: And those bonds already exist as a liability in the borrowing of the Dominion Government, do they?

Hon. Mr. HOWE: Right.

Mr. KINLEY: And, therefore, if you take that out of the railway account it does not increase the debt of Canada.

Hon. Mr. HOWE: That is correct, yes.

Mr. KINLEY: But you have a duplication.

Hon. Mr. HOWE: Yes.

Mr. KINLEY: And you carry this liability you are going to write off.

Hon. Mr. HOWE: That is right.

Mr. VIEN: On that point, are not these liabilities of the Canadian National Railway system shown as an account receivable on the public accounts of the Government?

Hon. Mr. HOWE: Not as an active account, no.

Mr. VIEN: Not active, but inactive.

Mr. SMART: It is a net debt.

Mr. VIEN: Is not the Canadian National Railway system indebted to the Government of Canada in that account?

Hon. Mr. HOWE: Loans inactive—non-active.

Mr. VIEN: Yes. Non-active assets. Colonel Smart says no, and it may be so, but I would like to ascertain how on the books of the Canadian Government is shown the amount owing the Canadian Treasury by the Canadian National Railways.

Mr. SMART: It is included in the net debt. In the list of the net debt are included these two items \$442,000,000 and \$655,000,000 as being in the net debt of Canada in the the public accounts.

Mr. KINLEY: That would increase the net debt.

Hon. Mr. HOWE: No. There is no increase in the net debt; they are already in.

Mr. VIEN: It is shown in the net debt as a liability of the Government. I appreciate that. But is not the Canadian National Railway system owing the Government a certain amount of money for the advances which from time to time were made to it?

Hon. Mr. HOWE: They owe the money, yes; but the Dominion has written it off as an asset.

Mr. BEAUBIEN: When was that?

Hon. Mr. HOWE: 1920.

Hon. Mr. STEWART: Is there some reference to it in the annual report of the railway, 1935?

Hon. Mr. HOWE: Yes, it is still in the railway account.

Mr. MAYBANK: The debtor still carries it in his books, but the creditor ceases to regard it as of any value and has written it off.

Hon. Mr. HOWE: That is the situation.

Mr. VIEN: That is the point. I am not criticizing it at all. I am only trying to find what the entry is in the books.

Hon. Mr. HOWE: I can give you the history of that. In 1920 Sir Henry Drayton took this money or these debts owing by the Canadian National Railways and included them in his net debt.

Mr. VIEN: How was it shown in the budget of 1920? Was it shown as a debt owing the Canadian Government as well as a liability by the Canadian Government for the guarantees given in that respect?

Hon. Mr. HOWE: It is shown as money owing by the railway to the Government; and he simply took that money and put it in his budget. The people of Canada appropriated money to wipe that debt off.

Mr. VIEN: Was it done that way?

Hon. Mr. HOWE: Yes. It was done that way.

Mr. VIEN: That is that all the money that was owing the Canadian Treasury by the Canadian National Railway system was written off by an appropriation of funds by Parliament; is that correct?

Hon. Mr. HOWE: Yes, that is correct.

Mr. VIEN: Would you kindly—

Hon. Mr. HOWE: I looked it up carefully. I went back to the public accounts of that year.

Mr. VIEN: I am like a man from Missouri; I would like to be shown how it was done.

Hon. Mr. HOWE: I have not the report of Sir Henry Drayton for the year 1920-21 here, but you will find it set out specifically.

Mr. MAYBANK: Are you referring to his budget speech?

Hon. Mr. HOWE: No. It is in the report of the treasury for that year.

Mr. DEACHMAN: It still remains, does it not, as an asset non-active? It was transferred to non-active assets.

Hon. Mr. HOWE: Yes. Non-active assets.

Mr. DEACHMAN: Just as if I owe you a million dollars and you do not consider it to be any good, so it is non-active.

Hon. Mr. HOWE: Correct.

Mr. DEACHMAN: Then, therefore, it is still shown as an asset of the Canadian government which is unproductive.

Mr. SMART: No. They take that off if the net debt is determined. It is included in the net debt.

Hon. Mr. HOWE: It is a remote possibility. It is one of those things you write off your books and where you say: if they pay it it is all right with me; but if they do not pay it, I am not out anything.

Mr. BEAUBIEN: The treasury absorbed that and you increased the national debt by that amount.

Mr. MAYBANK: You increased the net debt by that amount.

Hon. Mr. HOWE: Don't get confused by net debt. There is no other debt that I know of.

Hon. Mr. STEWART: Is there any reference to that item on page 17 of the annual report of the Canadian National Railways system for the year ending December 31, 1935?

The CHAIRMAN: What page?

Hon. Mr. STEWART: Page 17.

Hon. Mr. HOWE: Loans from the Dominion of Canada.

Hon. Mr. STEWART: Loans from the Dominion of Canada?

Hon. Mr. HOWE: \$679,000,000 odd. That item includes it.

Hon. Mr. STEWART: Does it include it?

Hon. Mr. HOWE: Yes. It is included in that.

Hon. Mr. STEWART: The railway company's own statement on page 17 has a liability of the railway to the Dominion, and it is put down there as a loan.

Hon. Mr. HOWE: That is right.

Mr. KINLEY: Take the first item on page 3: "Write-down of capital stocks and old debentures by concurrent reduction of property accounts." You write down the capital stock; what about the old debentures? What do you mean by that?

Hon. Mr. HOWE: The old debentures were debentures issued before confederation to cover a loan of \$15,000,000 to the Grand Trunk Railway. There was a reorganization of the Grand Trunk Railway subsequently and the government arranged in connection with that reorganization that the loan would be junior to the common stock which was issued as part of the reorganization. Since then the common stock has been found by an arbitration commission to be valueless, and anything junior to it must also be valueless.

Mr. KINLEY: Those old debentures do not exist now, do they?

Hon. Mr. HOWE: Oh, yes. They exist in the railway account.

Mr. KINLEY: Now, coming down to the other end we get the Canadian Northern picture. It appears that you value your interest in the Canadian Northern only at \$18,000,000. That is on page 3.

Hon. Mr. HOWE: The common stock. That is all it cost us.

Mr. KINLEY: That is all the Canadian Northern cost the people of this country?

Hon. Mr. HOWE: Yes. That is all the stock cost us. Of course, there were all sorts of bonds to be perpetuated.

Mr. KINLEY: That is the trouble with the Canadian National Railways; the whole cost is in bonds.

Hon. Mr. HOWE: Quite. There is no reason why we should carry the stock in a fictitious way.

Mr. KINLEY: What was the loss to this country in the Canadian Northern? What do you figure that at?

Hon. Mr. HOWE: It did not represent money. It was only pieces of paper. We acquired that paper and it cost us \$10,800,000 to acquire 60 per cent of it and, therefore, we feel that we can properly value all of the stock at \$18,000,000. But it did not cost the people of Canada anything; they had no investment in it.

Mr. KINLEY: In your bill in regard to Canadian Northern stock you have it written down to \$18,000,000. Do you mean to say you are not writing off a loss?

Hon. Mr. HOWE: No. The Canadian Northern stock was issued by the Canadian Northern Railway Company. The government had no interest in it until they bought the stock in 1917 or 1918, when they took over the liabilities in addition to that.

Mr. KINLEY: How much of the liabilities did you take over when you took over the Canadian Northern?

Hon. Mr. HOWE: I hesitate to say. That is all shown in the balance sheet there.

Mr. KINLEY: With regard to the Intercolonial Railway; I think we should clear up that picture a little; of course, it was built under statute, and the statute provided for a sinking fund; that an amount over the cost be paid by the government of Canada and that a sinking fund be provided of so much a year. It is fair to assume then that the railway had no debts when it entered the Canadian National Railways system, except the deficit?

Hon. Mr. HOWE: Well, of course, the cost of the railway is shown in the government books. It had no debt to carry in its books. Its debt to-day is a non-interest bearing debt. That is the picture in the balance sheet we were talking about.

Mr. KINLEY: A sinking fund was provided in the legislation?

Hon. Mr. HOWE: What good is a sinking fund if there are no profits?

Mr. KINLEY: That sinking fund was to be set up out of public revenues and not by the railway. It was to be paid by the government under that act.

Hon. Mr. HOWE: We are doing about as much as we can for the Intercolonial when we are taking it out of the debt class. It is simply a proprietor's equity; in other words, the government spent some three hundred million dollars odd in building it and therefore it has an equity as a proprietor to that extent; but equity means nothing unless it earns a return.

Mr. KINLEY: Now, we are not Social Crediters, these figures you know are rather large.

Hon. Mr. HOWE: They are rather large figures.

Mr. MAYBANK: As far as that goes, the Intercolonial is something of a social heritage.

Mr. KINLEY: Here is the point I want to make with regard to the Intercolonial Railway entering into the picture you present for the readjustment of railway finances; it is in better company—

Hon. Mr. HOWE: Quite.

Mr. KINLEY: —and it has been operated as a part of the Canadian National Railway system for some years.

Hon. Mr. HOWE: Yes.

Mr. KINLEY: Therefore, anything you can say about the Intercolonial Railway in so far as this readjustment is concerned is to its benefit.

Hon. Mr. HOWE: Quite.

Mr. HEAPS: Might I ask if it is not a matter of information that the minister or any of those with us to-day might give to the committee an idea of the operations of the Intercolonial Railway since say the coming into effect of the Maritime freight rates structure, showing the actual operations of the road since it became a part of the Canadian National Railway system.

Hon. Mr. HOWE: That has no bearing whatever on this bill.

Mr. HEAPS: This has some little bearing, and I think that is shown by the questions which were raised at our last meeting and which have been raised here again to-day; and I think if the picture which has just been presented with respect to it were to go out it would be giving a wrong impression.

Mr. BEAUBIEN: Is there any such thing as the Intercolonial Railway to-day?

Hon. Mr. HOWE: Oh, yes.

Mr. HEAPS: I think the figures must be here somewhere this morning, and I would like to know what the operating profits were.

Hon. Mr. HOWE: The profits are consolidated. It is operated as a part of the Canadian National system. I do not think you could segregate that. I do not see how you could show that even in the calculations showing the total earnings. What about the freight originating elsewhere which travels only in part over the Canadian National system?

Mr. HEAPS: We do know it. We had that figure submitted to the committee; and we also had the amount which the government gives by way of subsidy to that part of the system, that 20 per cent freight rate reduction.

Mr. BEAUBIEN: Has that any bearing on this bill? I don't see why we should go into that.

Mr. RYAN: I do not think it would be a fair proposition to go into it from the time it was taken over by the Canadian National Railways.

Hon. Mr. HOWE: I think Mr. Ryan is right in that. I don't see any sense in that.

Mr. MAYBANK: I would like to get the information that has been asked, but we are governed to a certain extent by time; and in any event if we tried to get the complete picture of the Intercolonial we would have to go away back of 1867.

The CHAIRMAN: It seems to me that the proper time to consider that would be when we have the report of the railways before us.

Mr. HEAPS: What I wanted really was just from the time the Maritime Freight Rates Act came into effect with its 20 per cent reduction in rates.

The CHAIRMAN: All these figures will be available when the report of the railways is before us.

Mr. WALSH: Might I ask the minister a few questions, and just make some comments on the substance of the document which was read at our last meeting. I would like to ask the minister if this bill will have the effect in any way of increasing the revenue of the Canadian National Railways?

Hon. Mr. HOWE: That is rather a hard question to answer, you cover a large amount of territory there. My impression is that it will at least have the effect of reducing the cost of financing, which is one of the very large operating items.

Mr. WALSH: That is not revenue is it?

Hon. Mr. HOWE: It is in effect; a penny saved is a penny earned, isn't it?

Mr. WALSH: Not always, no. Could you suggest that it is going to increase the earning power of the Canadian National Railways in any way?

Hon. Mr. HOWE: I would not say that it has no effect on the operating statement.

Mr. WALSH: You would suggest by your last statement that there will be a certain decrease in the cost of operation, it would not decrease the cost of operation in any way.

Hon. Mr. HOWE: No. I think it will tend to decrease the cost of financing. How much, no one can say.

Mr. WALSH: I have a suggestion to make with respect to some of the recommendations contained in this bill, and the elaborations thereon which have been given by the Minister of Transport. I think neither of these meets with the unanimous approval of the committee, some of the recommendations do not. This is one of the biggest financial transactions with which the people of Canada have been faced since we became a Dominion and a nation, involving as it does liabilities in excess of \$1,800,000,000. I doubt if any of us can have any adequate conception of the meaning of that figure. I doubt, and I say this with all due respect to the committee, and every member of it including myself, I doubt whether any of us are in a position satisfactorily to pass judgment on the merits of this bill in our present state of enlightenment. The sums involved are tremendous. The changes are of tremendous consequence, both to the railway and to the Dominion of Canada. I feel, Mr. Chairman, that this committee should have the benefit of expert advice, other than what we have already had. The recommendations of the minister as contained in the bill are based upon the approval, the sanction, the recommendation if you like, of one firm of auditors, Touche and Company, no doubt, aided and abetted by the accounting officials of the Canadian National Railways.

Hon. Mr. HOWE: Let us examine that.

Mr. MAYBANK: I think that word "abetted" is little strong, we haven't got any criminal charge against them anyway.

Mr. WALSH: I mean, acting with their advice; I did not mean to imply anything derogatory to them by my use of that word.

Hon. Mr. HOWE: This transaction is a very simple one. We have one set of books showing the debt of the National Railways at so much, and we have another set of books showing the national debt at so much; we are simply reconciling the two, and where these debts appear in both sets of books we are eliminating them.

Mr. WALSH: That may be the opinion of the minister, but with all due respect to the minister it is not mine. This is the recommendation of Touche and Company.

Hon. Mr. HOWE: If you read the recommendation of Touche and Company you will find that it is hardly parallel.

Mr. WALSH: There is very little difference up to the point where you appoint a body to be known as a securities trust. Up to that point don't they parallel? And then there is a diversion; and I understand of course that the accounting officials of the Canadian National Railways are indeed in agreement with the suggestions made by the minister. In fact, I could read in the minister's statement of last week, with all due respect to the minister, I could read in that statement the expert hand of the statistician and economist.

Hon. Mr. HOWE: Don't cover too much territory.

Mr. WALSH: I feel that as a business executive or engineer, having read this report and giving us his opinion of it and the statement which went with it, the minister would use language of a somewhat different nature. But as a receiver—

Mr. KINLEY: He was a receiver of wrecks.

Mr. WALSH: I wish rather to press the point that we are not in a position satisfactorily to deal with this matter. We have been given an onerous duty by parliament. Parliament expects us to discharge that duty in the best possible manner and to bring in a report to them which they can feel has been developed through the best possible means placed at our disposal; the people of Canada expect likewise from this committee, and from parliament. I want to assure the committee that I have spent long hours in the study of this report. I am not offering these observations as the result of just a brief survey of the material involved. I have made a thorough study of all the minister has said, and also of the Touche report, and other reports which preceded it. I have studied them very carefully and I feel after all that close study that I am not in a position satisfactorily to pass judgment on some of the items in this bill. I for one, and I feel there are other members of this committee here who share my view, would like to hear the expert advice of some firm of auditors other than Touche and Company as to what they think of the proposals involved in this bill.

Mr. HEAPS: Who do you suggest, Mr. Walsh?

Mr. WALSH: I do not think there is much need of a suggestion from me. Who does it for us is relatively unimportant. As you know, there are such firms as Price, Waterhouse & Co., P. S. Ross & Sons, the Hon. Gordon Scott—well known to the minister; also Macdonald & Geary—George Geary I think is well known to the members of this committee. There are a good many others whom I could name who are competent to take this report and this bill and the minister's notes and give us the benefit of their advice as experts as to whether they consider the steps that are being proposed are in the best interests of the railways and in the best interests of the people of Canada.

Hon. Mr. HOWE: Since when has an auditor been called on to deal with matters of policy. A firm of auditors can merely tell you whether or not certain figures are correct.

Mr. WALSH: It is not a matter of policy, Mr. Minister.

Hon. Mr. HOWE: It is entirely a matter of policy.

Mr. WALSH: This is a matter dealing with \$1,800,000,000 of money which is at the present time presumed to be invested in the Canadian National Railways.

Hon. Mr. HOWE: Are you suggesting that the figures are not as we represent them?

Mr. WALSH: The figures are as you represent them, as you can get at these figures; but when it comes to dealing with these figures, I do not know whether the way in which you have dealt with them is satisfactory to this committee, and to the people of Canada; and I can't know that on the recommendation of one firm of auditors only, namely Touche & Co.; or even on the recommendation of the statisticians and economists of the Canadian National Railway. Now, I would like to urge that point. I could go further in elaborating my reasons for raising it. I am not in agreement, I am in total disagreement, with this scheme which brings into being through section 12 a new organization known as a securities trust. Now, I want to point out to the members of this committee that the minister is creating through this bill something which would not be allowed or tolerated in private practice. Here is a parent company going into private practice with a subsidiary. The subsidiary gets into financial difficulty. The parent company advances money and charges interest. The subsidiary gets into such a position that it cannot be responsible for the money loaned nor for the interest. The parent company then says to the subsidiary company: "Forget all about it, we will create another company, a third company, and we will take the stock of the other company and transfer those loans and the interest on loans to this third company."

Mr. KINLEY: Who proposes that?

Mr. WALSH: The analogy here is the same. The government is the parent company; the Canadian National is the subsidiary company; the Securities Trust is the third company that is to be created, and it has no connection with the debts of the Canadian National, but it has a direct connection with the parent company, the government of Canada.

Mr. MAYBANK: What about this—

Mr. WALSH: Just a second until I complete this statement.

Mr. MAYBANK: I thought you would clear up this one point.

Mr. WALSH: I will in one second, but I want to complete the analogy. If a private company came here with a bill to do such a thing we would laugh them to scorn. If they did such a thing we would bring them before the courts and charge them with fraud or attempted fraud. That is my position.

Hon. Mr. HOWE: Who are they defrauding?

Mr. WALSH: Defrauding the public, in that they would be presenting a balance sheet for this subsidiary company that does not represent the true and complete picture of that subsidiary company; and that is exactly what this bill is doing through the Securities Trust. It is taking away from the Canadian National Railways certain sums of money that the people of Canada have invested in the railway, and on which they are entitled to see some returns sometime. They are taking them away, not taking them to themselves, but investing them in a new corporation, and that new corporation, if I may use the term, Mr. Chairman, to my mind, and without any political significance, I would suggest is going to become a regular sink hole for all the deficits that have been created and will be created in connection with the Canadian National Railway. I am going to be most vehement in my protest in this committee and in parliament against the establishing of such a precedent, a precedent we would not allow to exist in private practice, setting a bad example to business in this country and simply blurring the balance sheet of the Canadian National Railways so that we shall not in any way in the future be able to tell exactly how much money the people of Canada have invested in the railway, and what that railway was actually costing them.

Mr. MAYBANK: There is this important distinction between your subsidiary and the parent company and the situation which we have before us, namely, that in the case of a subsidiary and the parent, the analogy that you

have drawn, you may have different bodies of shareholders; but in this case, the parent and child, you have only one body of shareholders, the Canadian people. Is not there that important distinction, or is that any distinction?

Mr. WALSH: It is no distinction, because in the analogy I was making, the parent company would still be the controlling factor in both these companies. In other words, it would be the commencement of a triangle, the base of the triangle connecting the Canadian National Railways to the Securities Trust would not be completed. There is no possibility of consolidating accounts in connection with the Securities Trust and the Canadian National Railways in the scheme that the minister proposes to set up.

Hon. Mr. HOWE: Your remarks are entirely untrue, and your statement that this would not be tolerated in private finance is entirely untrue, because it is done every day. I could show you fifty balance sheets——

Mr. WALSH: Do you mean to tell me that a private company having a subsidiary company which owed the parent company money could create a third company and take away from that subsidiary company all the debts and obligations that it owed to the parent company and transfer them to a third company without any reference being made in the books of a subsidiary company or in the financial statement or analyses of the subsidiary company? It would not be allowed in practice.

Hon. Mr. HOWE: It would not be allowed if the parent company and the subsidiary company had a duplication of debt. The income tax department would not allow it.

Mr. WALSH: Mr. Chairman, if the company came here and asked parliament to give it the power to create such a third party, parliament would not allow it. You would not allow it. It is not in conformity with law as it stands at the present time, or with practical accountancy. I do not think that the——

Mr. PARENT: What is the difference? It is the same guarantee; the government guarantees it.

Hon. Mr. HOWE: This company is simply devised to preserve the equity wholly owned by the Dominion government, and that equity is being put at a reasonable value instead of a fictitious value.

Mr. HEAPS: Would you consider the government in the same position as a private corporation?

Mr. WALSH: I was drawing an analogy between the two. I do not think we should allow the government to start a practice that we would not tolerate in private practice.

Mr. HEAPS: I wonder if Mr. Walsh would be good enough——

The CHAIRMAN: Order, gentlemen. Mr. Walsh has the floor.

Mr. PARENT: Mr. Walsh ought to get in touch with an accountant himself, invite him to lunch and discuss it privately with him.

Mr. WALSH: I am glad that remark was made, because that is the point I am trying to emphasize. I want another firm of chartered accountants to go over these statements, to go over the statement of the minister, to go over the bill as it is presented, and to appear before this committee and give us their opinion as to whether they consider this method of procedure valid or not.

Mr. BEAUBIEN: Would they be any better than the auditors we have?

Mr. WALSH: It would be better than Touche & Company. Touche & Company, I would say, are prejudiced witnesses. I want an unprejudiced witness to come before this committee to pass judgment on this suggestion and to give me further and additional light so that I can see where I am right and where I am wrong.

Mr. YOUNG: I should like to ask Mr. Walsh why he says this particular firm of auditors is prejudiced? That is a very serious charge to make against any auditing firm.

Mr. WALSH: It is not a serious charge against them at all. Touche & Company were the previous auditors. They got a report from the accountants or the comptrollers or financial advisors of the Canadian National Railways. On that they based the report a few years ago. They were replaced as accountants by another firm last year. This year they are again back, and based on their report and their previous study they no doubt second the minister's proposal. Now, I consider that is only one firm's opinion—

Mr. HEAPS: That is not fair.

Hon. Mr. HOWE: This is purely a matter of eliminating duplication; that is all. There is a matter of policy involved. We consulted Touche & Company in regard to the matter of eliminating duplication. We asked them to check our figures.

Mr. WALSH: Your report and your action is based altogether on the report that Touche & Company made two years ago.

Hon. Mr. HOWE: You read it. I read it about a year and a half ago, but I have not read it in the last year and a half.

Mr. WALSH: I have read it in the last three weeks.

Mr. PARENT: What is there to prevent you from getting your own accountant?

Mr. WALSH: I cannot afford it. This committee ought to have the benefit of that advice. I know when we come before any other committee in parliament that that committee is given leave to obtain counsel and expert advice. Probably the objection is I am not proposing to bring a number of lawyers here to give expert advice. I want to bring accountants here who understand railway accounting, so that they can give us the benefit of their judgment.

Mr. RYAN: Would you accept the advice of an independent auditor?

Mr. WALSH: It would help me to form an opinion. I want to suggest to the minister that we have a problem here. I am fully cognizant of the fact that it is a tremendous problem; I am not minimizing the problem, but I feel that we are not meeting that problem in a courageous way. They have similar problems in other parts of the world. If we go to the Commonwealth of Australia at the present time we find that they are dealing with exactly the same problem; but they are not dealing with it in the way that we are dealing with it—

Hon. Mr. HOWE: Much more drastically.

Mr. WALSH: They are facing it in a courageous way, and they are leaving the railways with a balance sheet each year that will show the public exactly how much money has been spent on the investment in those railways.

Hon. Mr. HOWE: That is not correct at all. They have written off the advances and a considerable part of the capital cost.

Mr. WALSH: They have taken due note of that in the balance sheet that is to be published in connection with those railways. There is another point of difference—

Mr. HEAPS: Is it not a question how they came into ownership of those railways?

Mr. WALSH: They came into ownership very much in the same way that we came into ownership of ours.

Mr. DEACHMAN: Would you explain one detail, and that is how this may be a means of depriving the government of a return from the C.N.R. What do you mean by that?

Mr. WALSH: We have made certain investments in the C.N.R. We do not know what the future has for us. It has been the hope and expectation in the various reports, the Drayton report and the Duff report, that the road would eventually pay returns to the government; at least that has been the anticipation. Now, far be it from me not to anticipate some kind of a return on our investment in the distant future.

Mr. MAYBANK: That is just the point in this question. How would they get away from the government?

Mr. DEACHMAN: Who is going to get the return if we do not when we own the stock and have control of it?

Mr. WALSH: You are getting away from the Canadian National altogether; you are going into a new corporation, the Securities Trust.

Mr. DEACHMAN: Who owns the new corporation?

Mr. WALSH: We own it, but we have it, as we own the capital stock of the Securities Trust.

Mr. DEACHMAN: Tell me how the government, who owns the railroads, is going to be deprived of the future earnings?

Mr. WALSH: It is not going to deprive—

Mr. DEACHMAN: Suppose there is a surplus of ten million dollars in the Canadian National Railways next year, who will get it?

Mr. WALSH: It is not going to deprive the railway directly of future earnings, but it is going to do this—I was not going to mention this point, but seeing that you insist on it I will do it—it is going to show a picture in the balance sheet that is not a real picture of the Canadian National Railways from year to year. It is going to show an enhanced picture of the railway and the conditions of the railway from the financial point of view. The result will be a suggestion to lower freight rates, a suggestion for increased expenditure. It may even lead to an era of extravagant expenditure such as we had during the 1920's, if we do not keep before the public and ourselves the real picture of the cost of the Canadian National Railways to this country.

Mr. DEACHMAN: We are not doing that now, if in the accounts of the railway and the government we show a duplication of \$1,800,000,000. Is it courageous to retain a duplication of figures that is not true?

Mr. WALSH: It is not good policy to introduce into this country unsound accounting practices.

Mr. DEACHMAN: Let us have what you would do.

Hon. Mr. HOWE: It may be interesting, if you will excuse me, to go back some years. I take it you will take Sir Joseph Flavelle as a fairly sound financier?

Mr. WALSH: He is one.

Hon. Mr. HOWE: He is the president of the Bank of Commerce.

Mr. WALSH: He has been a success.

Mr. MAYBANK: I do not think it is right to ask for an admission of that kind. I take it Mr. Walsh will not admit that, until he knows what is behind it.

Mr. WALSH: I want the committee to agree to my suggestion that we should get expert advice over and above what we have at the present time in order to facilitate the discussion and aid us in reaching a reasonable and satisfactory conclusion. That is the main point in my argument this morning.

Mr. PARENT: Then you have to get another referee.

Mr. HEAPS: I should like to know what an expert is.

Hon. Mr. HOWE: An expert accountant is one who will tell you whether your figures are correct or not. An expert on policy is a man who by the exercise of his judgment is able to decide whether that policy is sound or unsound.

Mr. DEACHMAN: I thought that an expert was a mediocre man away from home.

The CHAIRMAN: We have before us a request from the Canadian Chamber of Commerce to appear before this committee. Do you not think we should wait until those people have appeared before us and have given us their views? They may have studied this matter and be able to give their views, which might provide some enlightenment for us.

Mr. WALSH: I am looking for light.

Mr. KINLEY: Mr. Chairman, I think we lose sight of the fact that, after all, this is cleaning up a bankruptcy situation. There is no difference that I can see between this and what you do in a private business, except that we are doing by an act of parliament what a private business man would have to do through the courts and negotiation. I do not see a bit of difference. What is the good, in a sound balance sheet, of keeping on setting out as assets things that are worth nothing? That is the worst kind of deception. In private business that would not be allowed at all; and if you did it, you would be apt to find yourself in trouble. I think we should present the true picture. There is this feature about it, that the Canadian National Railways' first obligation is to pay interest on the money that they have borrowed; and that is the amount of their worth, as it were. A private company has capital stock, and if they do not make money they pay no dividends. Is it fair to pyramid deficits every year on this railroad and to add that to the burden? It seems to me that is an impossible and unwise thing to do. It seems to me that this is the courageous way to deal with the situation, and that it is not a bit different from what would be done in a private business. That is my humble opinion.

Mr. YOUNG: Hear, hear.

Mr. DEACHMAN: Have we a definition of courage?

Mr. KINLEY: Courage is in Bill 12 and this committee. I think when you take the two together, you get courage.

The CHAIRMAN: I understand that Mr. Walsh proposes to make a formal motion on this matter.

Mr. WALSH: I would make a motion, Mr. Chairman—and I have not asked anyone to second it, not even anyone sitting on the Conservative side of the house; but if I can find a seconder I would make a motion that this committee secure the services of some expert accountant versed in railway accounting, to give this committee advice on the bill, and also on the report presented by the minister in support of that bill.

The CHAIRMAN: Then you will not wait to make your motion until you have heard these people from the Chamber of Commerce?

Mr. WALSH: Would you suggest that I make it now, if I can find a seconder? Then I am quite willing to let it stand as notice of motion, shall we say, until after we have heard from the interested bodies. After that it might be convenient to withdraw it. Could I give it as notice of motion?

The CHAIRMAN: I would much prefer that you do not make the motion now, but wait until we have heard these people who have asked to be heard by the committee—make your motion afterwards.

Mr. WALSH: It would be quite satisfactory to me, if it is understood that way.

The CHAIRMAN: All right. Now, gentlemen, is there any further comment on the statement of the minister?

Mr. VIEN: Mr. Chairman, I would like to point out to the committee that in studying this matter we have got to consider the situation as it is presented to us by the minister, and try to analyse it with a view to bringing down a

report to the House of Commons as to whether the recommendations that are embodied in the bill are, in the opinion of the committee, sound and reasonable. If it is not our duty to go into the details of the matters that are submitted to us, it might have been just as well for this bill not to have been referred to the committee, but to have been studied in committee of the whole house. The house in committee of the whole was hardly capable of dealing with it in a minute manner, and that was, I suggest, the intention of the house when it referred it to us.

I confess I am not critical of this proposal. As a matter of fact, last year I suggested that we should consider recapitalization when we were in this committee. The recapitalization which I had then in my mind as being advisable would have been a merger of all the bonds outstanding in the hands of the public, which might be issued under one trust deed, perhaps, with the guarantee of the government, and a conversion made of this indebtedness in some way or another with a view to eliminating the very complicated accounting that so many trust deeds and so many issues of bonds involve, the additional expense in the way of fees to trustees, and the expenses to accountants to keep up the books. I know that the officials of the Canadian National Railways and the department have had that matter under study for a number of years. There were difficulties in the way that were insurmountable at the time; and we are gradually leading up to a recapitalization along the lines that I have just mentioned.

I believe, in answer to what Mr. Kinley has said, that there is, however, a difference between a company like this submitting a recapitalization plan of this nature and a bankrupt company going to the bankruptcy court. In the bankruptcy court the creditors take hold of the affairs of the company, and they compose their claims against the company or they wind it up. Here the creditors are the Canadian people, and the Canadian people should be at all times in a position to know how much that system costs them. Although it is necessary to simplify the accounting of the capitalization, I am afraid that, in the interest of the railway system itself, it is not wise to bring down the capitalization too much. If they showed on this new capitalization a very huge profit there would, as has been mentioned sometime this morning, be a tendency to claim for lower freight rates, lower than what would be reasonable on the basis of the cost of the service to the company. There would also be, probably, a demand for additional expenditures out of these net earnings on the new basis. Then will the new balance sheet of the new financial statement of the company show a true picture to the people of Canada, of how much it has spent for this railway system? These are points about which I confess my inability to express a considered opinion. Through a more careful study than I have been able to give so far to the figures submitted, and through greater enlightenment gained from the minister, the officers of the department and of the railway system, I, as a member of this committee, hope to be able to come to a conclusion. But if we are precluded from going into these figures and questioning the soundness of this change in the accounting with some care, I do not believe that the committee can be very useful.

Mr. RYAN: May I ask a question, Mr. Vien?

Mr. VIEN: Yes.

Mr. RYAN: You say that on the capital structure of the company, if it is placed in a proper picture, if they show large earnings, that might be taken as a justification for asking for a decrease in freight rates. Suppose the opposite picture is given, and on the capital structure they show a tremendous loss. Do you think that ought to be the basis for an application for an increase in freight rates?

Mr. VIEN: No, I do not believe so; because at present there has never been application for increased freight rates on that basis.

Mr. RYAN: Why should there be the opposite?

Mr. VIEN: Oh, well, it might be. There has been no application, but there has been a considerable resistance. I speak with personal knowledge of the facts. There has been, so far, a considerable resistance to lower freight rates on the basis of the costs of the services to the company, both to this system and to the other system, the Canadian Pacific Railway. When I was on the Board of Railway Commissioners I have heard officers of the Canadian National System suggesting that the rates were not too low, but that they were not high enough; and they resisted the application for lower freight rates on the basis of the costs of the services. If you wipe out the amount of capitalization—I am not suggesting that it should be done; I am in an inquisitive state of mind. I have always urged a recapitalization. The recapitalization in my mind was to take the form of a consolidation of all the bond issues and debenture stock issues in one trust deed, and the bonds guaranteed by the government, so as to simplify the accounting, and simplify the expense of carrying these bonds.

Mr. MAYBANK: Keep the load as it is now?

Mr. VIEN: No, not necessarily. There might be some writing off, by way of writing off from the capital structure. But that writing off cannot be intelligently made without a rather comprehensive inventory. I remember, during the course of the investigation into the Bell Telephone Company's rates, before they were granted an increase of rates we compelled the company to make a complete inventory, to determine the cost; and if a re-capitalization by writing off a considerable part of the capital structure of the company were suggested—I am subject to being corrected on this point—I would be inclined to believe that a careful inventory would be in order. Therefore, Mr. Chairman, what I had in mind to suggest is that I do not believe that we can go very fast in the study of these figures, unless we are called upon to consider them in an off-hand manner and pass judgment in that way in the report to the house. This matter is of great importance to the country, and I for one, hesitate to put my name down before I receive some more information.

The CHAIRMAN: Mr. Vien, as you very well understand, the bill will be considered clause by clause. The officials of the department are here to give all the information that you can possibly desire or that they possess, on each clause as we consider the bill. I do not see what purpose can possibly be served at the present time of discussion, especially of that general character, all through the bill, in advance of each paragraph. I think you are losing time.

Mr. VIEN: I think the minister tried sincerely to clear that up by the very comprehensive statement on the finances of the company that he gave. We are now on the report of the minister.

Hon. Mr. HOWE: That is right.

Mr. VIEN: We are on the statement of the minister; and I think that once the financial statement of the minister has been dealt with, there will be very little else to be done when we take the bill clause by clause. That is my impression as to the procedure. I will give you an example of what I have in mind. I was asking a minute ago how this duplication appears in the public accounts, and Colonel Smart was kind enough to point out that at page 2 of the public accounts the net debt is represented by expenditures of some \$88,000,000 in one item and \$655,000,000 on another account of the railway accounts, the schedules of which appear on page 13. These railway accounts are loans on the authority of certain statutes to the Grand Trunk Railway and to other component parts as shown on 13 and 14. I cannot very well understand how a loan to a company which is still carried out as a loss for railway purposes cannot be an asset, but is a liability. I would like to understand that if possible. It seems to me that the loans to the company are shown there as an asset, because if it is a

loan it is an account receivable. I know full well that when somebody makes a loan to me he carries it as an account receivable in his books, and here are the public accounts which show the loans in the column of net debt. There is something there that I cannot understand. We might, perhaps, Mr. Chairman, have the benefit of the Department of Finance—of some officers of the Department of Finance or those in charge of public accounts in the Department of Finance who might give us a very satisfactory explanation about this matter. I confess my inability to express a considered opinion along these lines. I do not want my remarks to be considered as an opposition to the bill; I am not opposing the bill at all; but I feel it my duty to try to understand what is proposed to us before we can pass a considered opinion.

The CHAIRMAN: The matter is very simple. You have at the present time before you the statement of the minister which follows practically in its entirety each section of the bill. You have before you the bill that can be considered clause by clause. If the committee desires to have officials of the Department of Finance present when we are considering each clause of the bill there is no objection whatever. We can go on examining the minister's statement clause by clause.

Mr. KINLEY: May I ask the minister a question. I think it is rather a pertinent question, and it is an aspect which we have to consider. Is there any probability, or is there any possibility of this reorganization of the Canadian National Railways being unfair to private competitive industry in this country?

Hon. Mr. HOWE: Well, I think not. By bringing down the government books, we must not overlook the fact that the Canadian National Railways have the public trust behind them, and that is rather difficult competition. If we were writing down to a point where the capital structure of the Canadian National Railways would be more favourable than the account of its competitor, I would say we were unfair, but we are not doing that. As a matter of fact, the competitor account amounts to about 50 per cent fixed charges and 50 per cent common stock—that is non-interest bearing charges. If we undertake this write-down, the account of the Canadian National Railways will be about 65 per cent funded debt and 35 per cent common stock equity.

Mr. KINLEY: With the same physical assets?

Hon. Mr. HOWE: The physical assets, I think, are valued higher on the government owned road than they are on the privately owned road. I believe the balance sheet will still show a more inflated picture of real property values after we get this done—I am not sure at all—for the Canadian National than for its competitor.

Mr. KINLEY: The immediate question seems to be whether we should have a firm of auditors verify the situation. I think an auditor is a man who determines correctness and accuracy of your accounts, and he does not formulate a policy unless he is sent there by someone who is interested and has a reason to send him. Now, I think the best criticism should come from the people who are hurt, and if anybody is hurt in this country in this connection they are the people who should say so. If a private railroad in Canada is interested, they are the people best qualified to come here and explain their position because they are experts on this very matter; and it might be well for this committee to know whether there is any privately owned road in this country that wishes an opportunity to say that this causes an injustice.

Mr. BEAUBIEN: Do you not think that if they wished to be heard they would be here?

The CHAIRMAN: I have taken the trouble, in accordance with the minister's instructions, to notify the C.P.R. that this committee was sitting.

Mr. KINLEY: I do not think the public is interested in this question at all.

Mr. WALSH: Do you think, or does this committee think for one moment that the Canadian Pacific Railway would appear here, as an organization who are competing and in competition with the Canadian National Railways? Does anyone think they would appear here to give evidence or their conclusions for or against this bill?

The CHAIRMAN: I was not discussing it. I was answering the question.

Mr. WALSH: Replying to that question, it would be perfectly absurd to even anticipate the presence of the C.P.R. here. They could not do that.

Mr. KINLEY: Why not?

Mr. WALSH: In view of their position as a competing road, the public would misunderstand their presence here. It is quite inconceivable for the Canadian Pacific to do that. It is just as inconceivable as it would be, if there were some investigation in connection with the Canadian Pacific, to ask some of the officials of the Canadian National Railways to go there and assist at that investigation on invitation.

Mr. BEAUBIEN: It has been done often in this house since I have been a member.

Mr. WALSH: It is not done in usual practice, and I do not think we can anticipate the presence of the Canadian Pacific Railway, either through their officials or through anybody appointed by them to represent them, at an inquiry into the recapitalization, you might say, of the Canadian National Railways—a competing and competitive firm.

The CHAIRMAN: You will admit, however, that it was only common courtesy that we should invite them.

Mr. WALSH: Absolutely. I think the chairman acted in good faith and also acted as he should have acted in giving them an opportunity, as a matter of courtesy.

Mr. KINLEY: Over in the committee considering Bill B, I think practically every man who thought he had an interest appeared. It is perfectly proper for a man or a business that thinks they are suffering an injustice to appear before a public tribunal and say so. I do not think the public of Canada are so unfair that they would hold it against the company that would come here to protect its own interest. For them to say that they are interested would be to their own benefit, and the people should know the situation. They would be doing a public service by coming here and explaining their position.

Mr. DEACHMAN: Mr. Kinley has raised the question whether any private interest would be prejudiced by this bill. I venture to suggest the idea that we ought to consider if the private railroads in this country will not be benefited by this bill. Consider the main competitor, the C.P.R. It goes into the money market to borrow money. Will it not be to its advantage if the general opinion of the public throughout the world is that railways in Canada are reasonably prosperous, and that the C.N.R. has been reorganized and put upon a sane basis in which it is working out its destiny, and that both railroads are achieving a measure of success in the Dominion of Canada? Mr. Beatty, from time to time, has made the statement that they suffer greatly from the losses of the C.N.R. because they are compelled to pay taxes which arise out of those losses. If this brings prosperity to the C.N.R., at least that argument of Mr. Beatty has gone; and he should rejoice in the fact that he no longer has to meet these bills. In addition to that, if the railroad is put upon a better footing the country benefits, and the increased prosperity and wealth of this country must redound in additional profits to the C.P.R. I would be very much surprised indeed, if the C.P.R. is going to look at this thing from the broad national interest, in the interest of the Canadian people and in the interest of the C.P.R. that we should not have the C.P.R. here voicing their approval of the attitude we are taking

and complimenting the committee and the government on their attempt to readjust the affairs of the C.N.R. in a way whereby they will be able to present a more favourable statement and have a better record in operation and in every other way in the railroad.

Hon. Mr. STEWART: Mr. Chairman, this bill has been the subject of anticipation for a long while and I think it is well that we should consider the effect of it. Now, I regret to think that this proposal will not add one dollar to the revenues of the Canadian National Railways; it will not by one dollar decrease the operating expenses of the railway; it will not by one dollar decrease the deficit upon the Canadian National Railways; it will not give one additional day's work to a man employed upon that system. It is calculated to rearrange the financial structure, and that is all.

Now, whether that is a matter of advantage or not is a question for discussion. It seems to me that this bill either goes too far or does not go far enough. It proposes to take out of the statement of liabilities certain liabilities of the company and to place them in a trust, thereby preserving them as a liability of the company. That, it seems to me, is almost blowing hot and cold at the same time. It does not, as I have said, improve the financial standing of the railway to the extent of one dollar. Now, as to financing, the making of loans, the credit of the railway and the credit of the country in respect of this indebtedness, I am sure that those who buy the securities of the Canadian National Railways are thoroughly competent to analyze any statement either of the Canadian National Railways or of the Dominion of Canada; and it is doubtful whether you will gain anything from that standpoint. It would seem to me, Mr. Chairman, that we are not going to get very much further with this bill in going into it clause by clause until we have heard, as I think we probably propose to hear, those who desire to make representations. When those representations are completed then we can sit down and take up this bill in the light of those representations, in the light of all we know about the subject, and deal with this matter clause by clause.

There are some features of this bill that are not controversial at all. I do not think there is going to be any conflict about certain of these old stocks. There is no question, they can be written off. But I do regret that this bill, even if given effect to, is not in my opinion going to improve the status of the Canadian National Railways, either in its operations or in its public credit.

Mr. RYAN: Have you any notice of any persons other than the Chamber of Commerce desiring to appear here?

The CHAIRMAN: The only people who have expressed a desire to appear here are the Canadian Chamber of Commerce; and I suppose it is the wish of the Committee that we should hear them on Tuesday next, that we should wait until then in order to give them a chance to get ready for their appearance before this committee.

Mr. WALSH: Earlier in this session some reference was made to the appearance here of the Canadian Chamber of Commerce. I think the Committee should be assured that this is the Canadian Chamber of Commerce, which has its head office in Montreal, and not the *Chambre du Commerce de Montreal*.

Mr. KINLEY: Has this proposition been submitted to the several branches of the Chamber of Commerce throughout Canada of which the Canadian Chamber of Commerce is made up, or are these people just speaking as the executive of the Canadian Chamber of Commerce?

The CHAIRMAN: I do not know. All I know is that we have a letter here signed by Mr. Clark as Secretary of the Canadian Chamber of Commerce asking leave to appear before this Committee.

Mr. KINLEY: Yes, but if they are the Chamber of Commerce this should be submitted to their boards all throughout Canada. Until they assure us they have done that they are not in a position to speak for the Canadian Chambers of Commerce.

The CHAIRMAN: We can ask them about that when they come here.

Hon. Mr. HOWE: There was one point raised by Mr. Stewart in his remarks in respect to which I would like to make just a brief observation. He said it is even stated that everyone who buys Canadian National bonds or Canadian government bonds is fully appraised and advised of the situation.

Hon. Mr. STEWART: I did not say everyone who buys them. I referred more particularly to the larger dealers.

Hon. Mr. HOWE: Let me give you just a little experience of my own, as I think it will be illuminating. It was to me. The Canadian government had occasion a short time ago to market some \$80,000,000 of bonds in New York. It was marketed through the firm of Morgan Stanley & Co.—the successors to J. P. Morgan & Co.—international financiers, who should know something about the situation. Under the Securities Act it was necessary for them to prepare a statement for the American government, and one of their experts brought the statement up here so that it could be verified. In that statement they had shown just the duplication of debt that we are discussing here; at least, they had added the public debt of Canada to the debt of the Canadian National Railways and said that the obligations of the Dominion of Canada were so much. Well, Mr. Dunning tried to explain that point, and then turned them over to officials of his department where they spent a whole day and even then had failed to convince them to the contrary. They then sent them over to the Department of Transport and we worked with them for practically a full day to convince them of it. We asked them the question if they thought the duplication should be eliminated; the reply we got was, certainly, they could not see how we could have treated it in that way in the first place, that we should show those debts for just what they were worth.

Mr. WALSH: I think that is the point on which every member of this committee is agreed. I do not think there is any disagreement in respect to the opinion that an adjustment should be made, the disagreement is in respect to the method by which the amount should be taken care of.

Hon. Mr. HOWE: I think that is very proper. I think the matter of policy is very simple. I have stated it as the elimination of duplication. In other words, if the item is in the public accounts we are taking it out of the railway accounts, and if it is not in the public accounts we are keeping it in the railway account. There are several items here which I think we have to include in our public debt and show in our public accounts, but in cases where there is a direct duplication I think that duplication should be eliminated.

Hon. Mr. STEWART: They are not pure duplications because there is an asset value.

Hon. Mr. HOWE: We are not eliminating assets. We show in our public accounts that this Dominion of Canada owes some \$3,600,000,000; at least, we set that up as the public debt of the Dominion of Canada. We state the debt of the railways at something less, and these two duplicate at the present time to the extent of \$1,500,000,000, just on the bare face value. They are duplications to the extent that the debt has value, but you are not admitting any asset value outside of the debt itself. In other words, if you put it in the net debt of Canada you are not admitting to the public or anybody else any asset value.

Hon. Mr. VIEN: I cannot understand how this operation was made in book-keeping, and that is a thing on which I would like to be enlightened. I have noted that the facts are as the minister stated, but if it would be possible, Mr. Chairman, I would like to have the director of public accounts from the Finance department present at our next sitting.

Hon. Mr. HOWE: I would be very glad to have them here, I will endeavour to arrange to have the deputy minister present.

The CHAIRMAN: You will perhaps remember that last year we had Mr. Roberts of the Finance Department before us and he showed the extent of the difference in the two totals. I can't see why we should have another official again this year go over the same ground, unless you particularly desire that?

Hon. Mr. VIEN: I would like to have that. Is it agreed that he will be here at our next sitting?

Hon. Mr. HOWE: Quite.

The CHAIRMAN: Whom do you want?

Hon. Mr. VIEN: I do not care, somebody who can speak with authority as to how the public accounts were kept with regard to the loans made to the railways under the liabilities as well as the assets side of the public accounts, and as to how this proposed recapitalization will have the beneficial effect which the minister points out.

Now, Mr. Chairman, do I understand correctly that at the present time the capital structure of the Canadian National Railways represents a liability side of \$2,325,149,836, and that after recapitalization the capital structure will show in the liability a balance of \$1,371,805,463.

Hon. Mr. HOWE: That will be the funded debt, yes.

Hon. Mr. VIEN: Therefore, the capital structure is reduced from \$2,325,000,000 to \$1,371,000,000.

Hon. Mr. HOWE: No, that is not correct; because, in the total liabilities you include the stocks, you see; you include \$270,000,000 of capital stocks owned by the Dominion government.

Hon. Mr. VIEN: \$690,000,000, if I mistake not; but if you will look at page 13-A you will see that I find this \$690,000,000 is shown as a proprietor's equity.

Hon. Mr. HOWE: That is right, yes.

Hon. Mr. VIEN: And, therefore, it should not be shown as a liability.

Hon. Mr. HOWE: Excuse me, you read liabilities of \$2,325,000,000; I just wanted to point out to you that that is not all of the bonded indebtedness at the moment, \$270,000,000 is common stock.

Hon. Mr. VIEN: No. In the balance the capital structure together with other liabilities shows a total on the liabilities side of \$2,325,000,000.

Hon. Mr. HOWE: That is correct, yes.

Hon. Mr. VIEN: And after this scheme has gone through the liabilities side will show \$1,371,000,000.

Hon. Mr. HOWE: No. Will you look at the figure below. It will show \$2,062,000,000—

Hon. Mr. VIEN: Except that I read this, Mr. Minister; total liability \$1,371,000,000.

The CHAIRMAN: That has the stock in it.

Hon. Mr. VIEN: No, stocks excluded.

Hon. Mr. HOWE: It shows total liabilities; this other is not total liabilities, it is simply liabilities.

Hon. Mr. VIEN: But it consists of the total liabilities there.

Hon. Mr. HOWE: In your balance sheet the first figure read did not include the stock. The comparable figure to that is \$2,062,000,000.

Hon. Mr. VIEN: I am reading from page 13-A of the appendix No. 5, and if I read correctly I see "total liabilities."

Hon. Mr. HOWE: It is total funded liabilities; it is total interest bearing liabilities, if you like to call it that; everything on the liabilities side of the balance sheet are liabilities.

Hon. Mr. VIEN: Yes, but I would like to know how this is going to work out with respect to the capital structure of the company, with respect to their operating expense, fixed charges and annual financial statement. We write off by a stroke of the pen \$262,770,000. That is forgotten altogether. I am reading from page 12-A. Total eliminations—we forget it altogether—we sent it to the limbo. These are to be destroyed altogether. We are treating it is a bad debt, just as it would be treated in an ordinary business financial statement by writing off for bad debts so much. I take it that we write that off as a bad debt. If I am mistaken I invite correction.

Hon. Mr. HOWE: That is right.

Hon. Mr. VIEN: I am trying to understand whether we write off by elimination \$262,770,972.

Hon. Mr. HOWE: That is right, and we get there after we do that, \$2,062,387,000.

Hon. Mr. VIEN: And that is the total on the liabilities side of the balance sheet after that elimination?

Hon. Mr. HOWE: That is right.

Hon. Mr. VIEN: Right. Then we come to the financial statement of the company from year to year. Hereafter you say the net earnings of the company are going to be shown—are they going to be shown on the \$1,371,000,000, or as regards the capital structure of \$2,062,000,000?

Hon. Mr. HOWE: They will be shown in a different way. Take all the earnings of the railway and deduct your fixed charges; that is, all the bonded indebtedness and so on; and your earnings apply to the proprietor's equity. Your proprietor's equity will be represented by a certain number of shares of stock owned by the government, and the earnings will be so much per share on that stock—if and when we get earnings.

Hon. Mr. VIEN: Is the Canadian National Railway system going to be considered as having a capital structure of \$1,371,000,000?

Hon. Mr. HOWE: No, sir.

Hon. Mr. VIEN: Or a capital structure of \$2,062,000,000?

Hon. Mr. HOWE: That is correct, yes.

Hon. Mr. VIEN: The latter statement is correct?

Hon. Mr. HOWE: Yes.

Hon. Mr. VIEN: Then, the Canadian National Railway system will be considered to have a capital structure of \$2,062,000,000.

Hon. Mr. HOWE: Quite.

Hon. Mr. VIEN: And all we eliminate is the amount of \$262,000,000.

Hon. Mr. HOWE: Quite. We have changed the character of some of it, but that is all we eliminate.

Hon. Mr. VIEN: I shall be very pleased if we can have further information as to the duplication in the funded debt.

Mr. WALSH: The minister suggested that the profits in future, if any, would be shown as share dividends, is that correct?

Hon. Mr. HOWE: That is correct.

Mr. WALSH: What do you propose to do with deficits that might possibly be created even under the reorganization.

Hon. Mr. HOWE: The great party of which you are a very able member took care of that three years ago and arranged that they would be paid for out of the consolidated revenue fund of Canada and become a part of the public debt.

Mr. WALSH: Do you propose following that?

Hon. Mr. HOWE: We must. It is the law.

Hon. Mr. VIEN: It will be cash advances from year to year.

Hon. Mr. HOWE: Right.

Mr. WALSH: And the cash advances made each year will be shown in the balance sheet?

Hon. Mr. HOWE: No, they will be shown where they are now. Your great party eliminated this from the balance sheet in 1932.

Mr. WALSH: In that case I am not in agreement with what the great party did.

Hon. Mr. VIEN: I do not know whether in stating this I am absolutely correct or not, I do know however that you made the statement in good faith, and I may be wrong, but the advances which have been made from time to time have been shown in the profit and loss account of the system, and they are shown in 1935 with the consolidated balance sheet.

Hon. Mr. HOWE: We have no profits and no losses, we are starting all even here.

Hon. Mr. VIEN: I notice varied surpluses and deficits, and that the profit and loss balance shows accumulated deficits of \$856,000,000.

Mr. RYAN: Does that include the last four years?

Hon. Mr. VIEN: That was up to December 1, 1935.

Hon. Mr. HOWE: It does not include anything since 1932.

Mr. RYAN: I do not think so, no.

Mr. VIEN: I may be all wrong.

Hon. Mr. STEWART: It was done on the recommendation of the committee.

Hon. Mr. HOWE: Yes.

Mr. RYAN: It is just a carry-over. It is not carried over in the profit and loss statement of 1935.

Hon. Mr. HOWE: The losses since 1932 have been paid from the consolidated fund.

Mr. DEACHMAN: Mr. Howe, the additional capital expenditures are represented in further aid to the railway.

Hon. Mr. HOWE: No; everything is capital. We finance directly through the railway. Parliament simply authorizes the railway to borrow on the government guarantees.

The CHAIRMAN: Under the new practice one bill is brought to the house instead of providing for it in the form of estimates as in the past.

Mr. VIEN: Mr. Howe, I hope I am not taking up too much of the time of the committee on this point, but I read from the report of December 31, 1935, page 18, profit and loss statement, the following:—

“System net loss, \$115,281,689.79.” From that is to be deducted the amount voted by parliament, \$47,421,464.80, and Eastern Lines’ interest on government loans, \$626,413.21.

Hon. Mr. HOWE: Yes.

Mr. VIEN: Therefore the change during the year in profit and loss account amounted to \$67,233,811.78, which accumulated with the previous balance of \$789,040,675.42, made a total on December 31, 1935, of \$856,274,487.20.

Hon. Mr. HOWE: The accumulation of interest is largely responsible for that.

Mr. VIEN: When I go to the consolidated balance sheet as shown on pages 16 and 17 I find the amount of \$856,274,487.20 is shown also on the liability side. That gives a total of \$2,325,149,836.24 on the liability side. Comparing that with appendix No. 4, page 12a of the bill, I find the same figures, \$2,325,149,836.24. We now propose to write off the eliminations which are enumerated there amounting to \$262,770,972.03. The question which was just put is this: once you have recapitalized on the basis shown in appendix No. 5, pages 13 and 13a of the bill, are you going to add from year to year the deficits that may accrue if there are any deficits?

Hon. Mr. HOWE: We have no cash deficits. Parliament votes the money out of the consolidated revenue fund to make up whatever the railway loses.

Mr. VIEN: There will be an appropriation of public funds under the appropriation act each year to cover deficits, if any.

Hon. Mr. HOWE: Correct.

Mr. VIEN: It is proposed to keep the capital structure at the figures indicated—

Hon. Mr. HOWE: Yes.

Mr. VIEN: —irrespective of surpluses or deficits.

Hon. Mr. HOWE: No, no. If there are any surpluses we will apply them to a reduction of capital or pay them to the government. Surpluses will either be paid out as dividends to the government or applied against reduction of capital.

Hon. Mr. STEWART: I do not know whether the minister can answer this or not, but I should like to clear it up. With respect to the deficits that have been paid since the Duff Commission report by appropriation of parliament, in the books of the Dominion of Canada they are a debit against the Canadian National Railways from year to year.

Hon. Mr. HOWE: No. They are paid from the consolidated revenue fund exactly as the act says.

Hon. Mr. STEWART: They are not charged up against Canadian National Railways?

Hon. Mr. HOWE: No.

The CHAIRMAN: You used the wrong word. They are not paid out of an appropriation voted by parliament, they are paid out of the consolidated revenue fund.

Hon. Mr. STEWART: Paid by appropriation through the amounts appropriated. That is the authority for payment. They are paid out of the consolidated revenue fund. Then, there is no debit in the books of the dominion against the Canadian National Railways of the amounts so paid since the Duff Commission report?

Mr. VIEN: They appear in the appropriation act.

Hon. Mr. HOWE: They are included in the estimates of the Department of Transport.

The CHAIRMAN: They are paid out by special act of parliament. Gentlemen, shall we adjourn until Tuesday and invite the Canadian Chamber of Commerce to appear on that day? Is that satisfactory?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: We shall adjourn until Tuesday morning at 11 o'clock.

Hon. Mr. HOWE: Make it 10.30.

The committee adjourned to meet Tuesday, March 2, at 10.30 a.m.

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SESSION 1937

HOUSE OF COMMONS



STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

TUESDAY, MARCH 2, 1937

WITNESSES:

- Mr. Henry W. Morgan, Chairman of the Executive, Canadian Chamber of Commerce, Montreal.
- Dr. W. C. Clark, Deputy Minister of Finance.

MINUTES OF PROCEEDINGS

TUESDAY, March 2, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10.30 a.m., the Chairman, Sir Eugene Fiset, presiding.

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Deachman, Elliott (*Kindersley*), Ferland, Hanson, Heaps, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), McLarty, Maybank, Stewart, Vien, Walsh and Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport and officials of the Canadian National Railways, including Mr. S. J. Hungerford, President, Mr. D. C. Grant, Vice-President of Finance, Mr. J. B. MacLaren, Comptroller and Mr. T. H. Cooper, Assistant Comptroller; Dr. W. C. Clark, Deputy Minister of Finance, Mr. O. A. Matthews of George A. Touche and Company, Auditors of C.N.R. Accounts, and Mr. Henry W. Morgan, Chairman of the Executive, Canadian Chamber of Commerce, Montreal.

The Committee resumed consideration of Bill No. 12, an Act to provide for revision of the accounting set-up of the Canadian National Railways System.

Mr. Henry W. Morgan was called. He submitted a brief, the original copy of which he filed with the Committee and was examined thereon. He also filed a memorandum entitled "Information shown in published accounts of State-owned Railways of Australia and South Africa."

The Witness retired.

Dr. W. C. Clark, Deputy Minister of Finance, appeared before the Committee, and explained several items of the public accounts.

The Witness retired.

The Committee adjourned at 12.50 until Friday, March 5, at 10.30 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, March 2, 1937,

Room 277.

The Select Standing Committee on Railways and Shipping met at 10.30 o'clock. Sir Eugene Fiset, the chairman, presided.

The CHAIRMAN: Order, gentlemen. I have a letter signed by the clerk of the committee stating that Mr. Henry W. Morgan, chairman of the executive committee, the Canadian Chamber of Commerce, will be present this morning. I see Mr. Morgan is here. Will you kindly step up now, Mr. Morgan.

HENRY W. MORGAN, called:

The CHAIRMAN: Will you kindly give us your full name and title?

The WITNESS: Henry W. Morgan, chairman of the executive committee of the Canadian Chamber of Commerce.

By the Chairman:

Q. One of the members asked when your name was called at the last meeting if you represented all branches of the Canadian Chamber of Commerce, or the Montreal branch only?—A. All the branches, sir, in this way: the executive committee is elected by all the branches at their annual meeting, and have power to carry on the business of the Canadian Chamber of Commerce in the interim—the executive committee have that power and do act.

Q. You did communicate with all branches of the Canadian Chamber of Commerce before appearing before this committee?—A. Not on this particular item.

By Mr. Beaubien:

Q. Have you the power to formulate national policies without consulting the Board of Trade that have elected you as an executive?—A. No; policies of national importance are always referred to all the boards of trade, but within the policies laid down by the national convention the executive committee have power to act.

Q. Is it your intention this morning to make representations to this committee in regard to this bill that is before the house, based on the opinions of the executive of the boards of trade of the Chamber of Commerce?—A. No, sir, it is the intention—I think now perhaps if I read my remarks it would make it clear. But it is quite within the power of the executive committee as given to us at the annual convention to act. Our policy in relation to sound public finance comes under that heading and it is quite within our jurisdiction to act.

The CHAIRMAN: Gentlemen, shall we hear Mr. Morgan? Sit down, Mr. Morgan.

The WITNESS: I want to express my appreciation and that of my confreres of the opportunity given to us to address you this morning. My remarks will be short, I hope they will be clear, and I shall be glad to file copies of them with the committee so that they can have a chance of reading them.

By the Chairman:

Q. Have you copies?—A. I have copies for everyone.

Q. Have you copies now for the members?—A. Yes, sir. I shall ask the secretaries if they will be good enough to distribute copies of the remarks to the committee and to the press. With your permission I shall stand as it will be easier for the committee to hear what I have to say.

To the Chairman and Members of
The Standing Committee on Railway and Shipping
of the House of Commons,
Ottawa, Canada.

Honourable Sirs,

Bill No. 12

The Executive of the Canadian Chamber of Commerce observes that Bill No. 12, now before the Railway and Shipping Committee of the House of Commons, is an act to provide for revision of the accounting set-up of the Canadian National Railway System. With that portion of this bill providing for the adjustment of the Capital stock liability of the Canadian National Railways, there should be general agreement.

In view of the recorded statements of the Honourable, the Minister of Transport, and the Honourable, the Minister of Finance, there should apparently be no apprehension on the part of business, lest the amount of all moneys received by the Canadian National system, will not be clearly set out on the yearly balance sheet of the Canadian National Railways.

The Hon. Mr. Howe, for instance, assured the Railway Committee on February 18 that:—

“From the inception of the proposed capital adjustment plan, it has always been considered that the accumulated costs of the National system to the Dominion since Confederation should be embodied in some form in Public Accounts, as a perpetual record for all future parliaments as representing the people of Canada.”

Moreover, on February 5, the Hon. Mr. Dunning stated in the House of Commons:—

“The Minister (of Transport) has indicated that when the bill is referred to the Special Committee, the most searching examination will not only be permitted but invited, to the end that we may, if possible, evolve a set-up, which will be realistic in so far as it relates to the property as it now stands and at the same time will not disguise from the Canadian people the amount of money which all down through the years they have invested in this great railway undertaking.”

The Executive of the Canadian Chamber of Commerce welcomes these authoritative assurances. First, because we believe with the Ministers that the proposed adjustment of the capitalization of the Canadian National Railways should not remove from the knowledge of the Canadian people the accumulated costs of the National system. Rather there should be carried forward on the balance sheet itself, a complete and continuous record of such accumulated costs from year to year. Secondly, because the clauses of the bill, as now drafted, do not make provision for that intended clarity, which both the Ministers and we emphasize.

To carry out the expressed intentions of the government, therefore, it will be necessary to amend the bill, so that no doubt will be left in the mind of the layman that such provision has been made. The Executive of the Chamber makes this submission in accordance with the principles of sound public finance as approved by the Chamber's general membership.

Moreover, in the second place, the Minister of Transport added in the House of Commons on February 5:—

“I think in fairness to its private competitor that record should be kept, and I believe a way will be found by the committee to set up a record in a manner that will meet the suggestions which have been made along that line.”

The Minister of Transport has intimated that the proper way of presenting annually this complete financial picture rests with the Railway Committee. We feel confident, therefore, that the committee will wish to see to it that an adequate clause is inserted in the bill and the desire of the government thus fulfilled.

The foregoing is respectfully submitted.

May I add one remark before sitting down. I should like to give you some information as published in the accounts of the state-owned railways of Australia and South Africa. I do not intend to elaborate upon this; it is simply filed for your information and study, but with your permission I shall read the first page of it only. It is the financial statement of state-owned railways of Australia and South Africa:

This booklet includes the latest published returns of the following state-owned railways:

Australia

South Australian Railways,
New South Wales, Department of Railways,
Victorian Railways Commissioners,
Queensland Railways.

South Africa

South African Railway and Harbours.

These railways are conducted as monopolies directly by the governments concerned. Examination of the statement shows:

1. That in all cases *interest is assessed on the capital invested by the government in the railways* in computing the annual deficits. Rates assessed vary from 3·8 per cent to 4·5 per cent.

2. That in all cases except one the *accumulated surplus or deficit from operation is clearly shown on the balance sheet*. The Victorian Railways, which is the exception, shows the complete deficit (this includes interest on government capital) for the year only on the balance sheet.

In its further consideration of the proposed bill the committee will wish to take into consideration the fact that the Canadian National Railways is a separate corporation and that there is no monopoly of railways in Canada. The Executive of the Canadian Chamber of Commerce trusts that this information which has been developed through its interim study of the question will assist the committee in working out the necessary amendments to the bill to ensure adherence to the principles of sound public finance.

That, sir, comprises our statement. I shall just file the statement of the railways for consideration of the committee at a later date.

Q. You did not prepare any specific amendments?—A. No, sir; I feel that the committee are in a better position to deal with that than the Canadian Chamber of Commerce. We simply want to draw attention to that clarity which seemed to be lacking in the bill as drawn.

By Mr. Deachman:

Q. I should like to ask Mr. Morgan if he would recommend the same principles in regard to other business corporations. Perhaps I can give you an indication of what I mean. Some of our paper companies have recently gone

through the wringer, to use a familiar slang phrase. I should like to ask if you would recommend that in their statement of their future balance sheet they should show all the losses up to the date prior to the reorganization?—A. Well, Mr. Chairman, in answer to that I want to make quite clear first one thing, and that is that I am not an accountant and I do not feel that I am competent to discuss the way a balance sheet should be drawn up. But as a business man and as a taxpayer of Canada I feel that the deficits and a clear statement of how the railways are operating, the results of their operation for the year, the results of their operations prior to that year and the accumulated deficits should be shown so that I can understand it. I agree entirely with the remarks made in regard to recording all previous mistakes to the people, but may I not suggest that the same should apply to business corporations in general. For instance, I may want to buy stock in a paper company to-morrow, and I ought to know something of the history of that paper company. It seems to me if you accept the idea in regard to public finance that it should contain a record of all mistakes which the public has made in a case such as this, we ought also to have precisely the same in regard to private corporations; otherwise you have this position, which is an impossible one. You are asking that the Dominion shall be honest and state the history of all its past mistakes but you are permitting private business to smother all their mistakes. I think so far as the Chamber of Commerce is concerned I am submitting a suggestion here which should receive very careful consideration.

Mr. VIEN: But, Mr. Chairman, is that not exactly what takes place in accounting in ordinary corporations? The cumulative profit and loss statement comprises the accumulation of profits or losses during the history of the company, and unless a company is wound up its balance sheet contains—I am not an accountant myself and I speak subject to correction—but until the company comes to grief and goes into the hands of a receiver the balance sheet will contain the net results of its profit and loss account. If there have been accumulated profits or accumulated deficits they will be reflected in the balance sheet of the company.

Mr. BEAUBIEN: They do not carry them indefinitely.

Mr. VIEN: They do.

Mr. DEACHMAN: If there is a recapitalization?

Mr. VIEN: If there is a recapitalization on a new basis after a compromise with the shareholders or the bondholders the company has gone into the hands of a receiver or unless there has been an agreement between the creditors and the company, which is equivalent to a voluntary assignment in bankruptcy. But if the company does not come to grief I should like to be shown that it can write off any of its accumulated profits or deficits. In my opinion—and I speak subject to correction, I am not an authority on such matters, and I seek light rather than try to impose my view—it has always been my understanding that the company's profits or losses are accumulated in its profit and loss statement and then reflected in the balance sheet.

Mr. DEACHMAN: Mr. Chairman, in effect what we are doing now is very similar to going through a receivership. We have recognized the existence of certain facts, the impossibility of the Canadian National Railways to meet its obligation. Now, when Mr. Drayton made the changes which he made in the budget of 1920, he stated his case quite clearly. He said:—

Beyond all question it is a matter of importance that the exact position of the country's debt should be clear. While the books are correctly kept and the entries properly made, in my opinion some of the investments cannot be characterized as active investments.

Later on he proceeds to suggest that these should be transferred into the inactive column and this was done. It was a suspense account.

Mr. VIEN: Inactive column of what, of assets?

Mr. DEACHMAN: They were transferred to the statement as inactive assets.

Mr. BOTHWELL: Of the Dominion of Canada.

Mr. DEACHMAN: Yes.

Hon. Mr. STEWART: Not the railway?

Mr. DEACHMAN: When they were transferred there they were regarded as impossible of payment, and he states that in his budget speech. He regards it as practically impossible for them to meet the obligation. That was in 1920. At that time the obligations due to the Dominion government from the Canadian National Railways were somewhere in the neighbourhood of \$500,000,000. The amount due to-day under the compound—and I was almost going to say the confounded—method of keeping these accounts totals up to the stupendous sum of \$1,536,000,000; that is 1934, according to the Canada Year Book. Now, in the circumstances we have to recognize these things are without value and they ought to be written down. I agree with that; Mr. Morgan agrees with it, but the only question is this: I should like to have a record in the annual statement of what has been done, or a reference in each annual statement of the act which we are now bringing before the house so that any man may look at it at any time and see what has been done. But I submit, gentlemen, that there is no double standard in regard to Dominion government accounting and the accounting of a paper company; and when a reorganization has taken place I submit in the new statement which is issued after the reorganization there ought to be also an appendix stating what has been done. The difference is this; You all agree—I think I am safe in saying that—in regard to the Canadian National Railways that it is a proper form of accounting and the honest way in which accounts should be made. All I am asking is that we introduce also and put into the form of legislation an act which states that when a company has reorganized there shall be a record of what has happened, or a reference made to the time at which it happened, and that a record of that shall be available to anybody who wants to see it. It is only fair, if I am going to buy stock in a paper company, that I should have a record of their past history.

Mr. BEAUBIEN: You may not buy much stock.

Mr. DEACHMAN: The fact that there has been a reorganization does not mean they are not sound now; it means they are sound, but in the matter of honest business I suggest that to the Chamber of Commerce as being very worthy of consideration.

Hon. Mr. STEWART: Mr. Chairman, may I ask the gentleman who has just spoken to give to the committee the items referred to in the address on the budget of Sir Henry Drayton, and what was done with them.

Mr. DEACHMAN: He wrote down a number of items. Here is one item, Canadian Northern Railway Company, \$140,223,373.89. Is that, by the way, still in the accounts of the Canadian National Railways?

The CHAIRMAN: Yes.

Mr. DEACHMAN: Certainly. Then there is Grand Trunk Pacific Railway Company, \$95,345,469.19, still in the accounts, recognized by Mr. Drayton at that time, and transferred to inactive assets, considered as an item which would never be paid. Then there is another one, Grand Trunk Railway Company—

Mr. BOTHWELL: Is interest paid on these two?

Mr. DEACHMAN: Interest is undoubtedly paid on these to-day.

Mr. SMART: No.

Mr. WALSH: That is not an accurate statement. Interest was only paid on the advances made by the government.

Mr. DEACHMAN: All right; we shall leave that. Then there is the item of the Grand Trunk Railway Company, \$1,148,533.33.

He further says:—

Assets which are not readily convertible, as the specie reserve is, or are not interest producing, are not such assets as ought to be deducted from the gross debt. They are inactive, they are items of such a character as might well be placed in a suspense account.

How much suspense is there in regard to these items here? They must be written off.

The WITNESS: There is a very great difference between a private company and a government in the matter of writing off the assets. In the case of a private company which goes into liquidation, as we know, the shareholders lose their money and any equity in that company, and the company is reorganized and starts afresh with fresh capital and a new start for its operations. Now, in the case of a government, the people of Canada, no matter what they do with the Canadian National balance sheet, still have to pay the amount that has been guaranteed by the government on the railway situation and on the advance the government has made to the railways; and, therefore, whereas it is quite appreciated that a new set-up for the Canadian National may be quite correct, all I am trying to submit is that we show in a footnote, or in some manner which you are better able to judge and work out than we are—I do not propose to make a suggestion—but the footnote should show the yearly deficit and the accumulated deficit so that I as a taxpayer or as a business man in checking up the balance sheet of the Canadian National Railways will be able to see exactly the situation for that year and previous to that year.

By Mr. Bothwell:

Q. What particular benefit is to be derived from having these accumulated deficits set out in the annual report of the Canadian National Railways so long as they are in the public accounts of the Dominion of Canada?—A. I would say that in taking up the railway situation you see the public record of the Canadian National Railways for that year, but it does not show what has happened previous to that, and I think it is very likely that we will see—shippers and other business people will see that the Canadian National has made, perhaps, a profit, or has no deficit, or it has made a good showing on the year's operation, and you will forget the other years. Then you will have applications, probably, for lower freight rates. You will not have a true picture of what the Canadian National Railways have cost the taxpayer. I believe it is necessary that the Canadian taxpayer have before him the amount of money that he has put into these railways.

Q. If you as representing the Chamber of Commerce have come to the conclusion that the accounts of the Canadian National Railways should be written down and readjusted in some manner, and a record is going to be kept of that in the public accounts, do you believe it is in the interest of the general public of Canada that the losses which have been sustained on the Canadian National Railways should be flaunted before the people of Canada forever, without having to go to the infinitesimal trouble of looking up the public accounts of Canada?—A. I do emphatically, because we want to know exactly what the Canadian National Railways has done and what it has cost.

By Mr. Young:

Q. Does Mr. Morgan intend this brief to be a criticism of the action taken with respect to deficits of the Canadian National Railways by the government of Canada and the parliament of Canada in 1932?

Mr. WALSH: Before that question is answered—

Mr. MAYBANK: I rise to a point of order—

Mr. WALSH: I will ask the gentleman to keep his seat until I am through.

Mr. MAYBANK: Let me state my point of order. I would like the witness to answer the question, rather than his counsel.

Mr. WALSH: I am no counsel. The suggestion is that the government of Canada in 1932 did something whereas it was the trustees of the railway company that did something.

Hon. Mr. HOWE: You are quite mistaken.

The WITNESS: Dr. Young, I find it a little difficult. I am afraid I cannot answer your question. You are referring to a previous statement. I am not here to discuss the financial set-up or what did take place in 1932. I am here as an ordinary layman to ask that clarity be given to this bill, and that is my whole point. I am not here in the spirit of criticism, but rather in the spirit of constructive suggestion. The bill has many points of merit which we do not object to in the slightest.

Hon. Mr. HOWE: Do you take the view that if the government loses money that that should not be considered as a loss? For instance, if the railway loses money every year do you say that should not be treated as a loss, but as a funded debt? You would not usually destroy the bonds. Is that the position that big business would take?

The WITNESS: No, it is not.

Mr. YOUNG: I take it that there was no criticism of the action taken by the government and the parliament of Canada in 1932 with respect to the deficits of the railway?

The WITNESS: If I said that, I simply say I am not in a position to answer that question at the moment.

By Mr. Deachman:

Q. Your suggestion was that since the government was handling this situation, if money was lost there ought to be some statement revealing to future generations what has happened. What is wrong with my suggestion that if in a private corporation money has been lost by the investor it has really been lost by the people of Canada, and that in the interests of intelligent judgment future purchasers should have the record made available to them. Should there not be some indication in the annual statement? It would favour sound investment in the future and ought to receive the support of the Chamber of Commerce. So that in the future I am able to go to that balance sheet of 1935 of, we will say, the Fraser Paper Corporation, or whatever its name happens to be, and find that a reorganization had taken place and the capital written down. Surely that is something I can receive support for from such a body as the Chamber of Commerce. It would be support of an honest statement giving the history of past business?—A. I say that you as an investor and I as an investor in a private corporation doing business in Canada would naturally for our own protection investigate the history of a company we were going to invest in. That history would show when the corporation had gone into liquidation, that its liabilities were such and such and when its reorganization took place. In this case we cannot do that because the government has not gone into liquidation.

Mr. BEAUBIEN: Suppose I go into the bond market to buy a bond of a paper company as an ordinary man, I do not take the time to go into the history of that company, when it was reorganized, and I believe 90 per cent of the public do not.

Mr. DEACHMAN: That is absolutely true.

The WITNESS: The investor will for his own protection know what he is investing in.

Mr. DEACHMAN: Why not give him a hint as to where he could find the information?

The WITNESS: I have no objection.

By Mr. Young:

Q. There is another side to this. Bound up with this whole railway problem which has been accumulating over a quarter of a century there is a great public policy. The Canadian National Railways to-day is as it was taken over by the government—I was not in the house at the time, and I have no criticism of the action that was taken—but they took over a situation which actually existed. Private railways were doing certain things and they were receiving government support, and the thing which they were doing was opening up this great country. We must recognize that while there is a deficit shown here there is a great public asset represented in the opening up of this great country. Now, would you suggest that to offset some of this deficit there should be placed in the same balance sheet that great public asset which has been set up and served by the opening up of this great country, and when you are putting on one side the difficulties which have arisen you must not forget that they arose in the doing of something which was undoubtedly and is, I think, admitted by all in the interest of the country as a whole. So while you are suggesting that we keep up this horrible example, as I might call it, on the one side, perhaps you will be prepared to consider the question of public policy?—A. I quite agree with you. There is no question of doubt in any of our minds as to the benefit which the railways have been in opening up this great dominion, but that is a difficult thing to put down on a balance sheet. If we keep before us what the cost has been, ordinary common sense is going to lead the ordinary taxpayer to appreciate that against that cost he has got certain indefinite and intangible assets.

Mr. KINLEY: I think there is a great difference between public and private business. Public business is business for service while private business is business for profit. In this situation which we have before us the people of Canada are in a dual position. If a private industry fails the stockholders lose out and the bondholders will take the position of creditors. If we were a private company the president would try to find out how they could make profits enough to make the company pay. The Canadian National Railways are not doing that. They are giving a service to the people of Canada. If they could raise their freight rates and charge the people more they could make a better position for themselves, but they are giving the people of this country a chance which they would not have if this were a private company, because as a private company they would be entitled to make profits. For that reason I think we should make a clean sweep, bury the past, and if we need preserve it, put it in the archives so that future generations may see what we have done.

Hon. Mr. HOWE: The only discrepancy between the views of the committee and the views expressed by Mr. Morgan is that there should be carried forward in the balance sheet itself a complete and continuous record of such accumulated costs from year to year. Now, the purpose of this legislation is to wipe out duplication between the balance sheet of the railway and the balance sheet of the owning corporation, the public accounts of Canada. Now, do you think it is good business to fog this balance sheet—to attempt to do it—because your statement would not mean a writing out of the balance sheet; it would mean writing into it? All we are doing is taking the legislation of 1932 and making it retroactive. It is not our legislation at all; it is another government's legislation.

Hon. Mr. STEWART: Now, you have started a big question. You are going a lot further than was proposed.

Hon. Mr. HOWE: No. I do not think so.

Hon. Mr. STEWART: You are going a lot further than was proposed by the legislation or whatever was enacted in the legislation of 1932 which simply takes the annual deficit and puts it into the consolidated—it is paid into the consolidated revenue fund, that is all.

Hon. Mr. HOWE: We are going back of the history and doing it all the way back.

Mr. McLARTY: We are doing what I understand the Duff Commission recommended to be done but stated that was not the appropriate time.

Hon. Mr. STEWART: The Duff Commission recommended a lot more than that.

Mr. WALSH: I want to apologize to my friend Dr. Young. I was confusing the method of meeting the annual deficits by having them voted by parliament as initiated in 1932, with the elimination of the interest charges for these advances from the balance sheet in 1935. The former was done, I understand, on the recommendation of the Duff Commission acted on by the government that was then in power, an action with which I am in complete disagreement although, I think, probably, other members of the committee find themselves in the same position. I feel very happy to find myself in almost complete agreement with my friend Mr. Deachman in relation to private and public companies. Although the commission has nothing whatsoever to do with the private companies and their way of dealing with losses, yet I feel with Mr. Deachman that we should do something in connection with railway accounts so that the profit and loss statement and consolidated balance sheet should always show the true picture to the public of Canada. As Mr. Morgan has pointed out this could be done by a footnote or otherwise showing the complete investment of the public of Canada in the railway. Now, that is the main point for which I am contending. My main opposition to the present bill is based on the premises that this bill more than ever ceases to make the consolidated balance sheet of the Canadian National Railways a true picture of the actual conditions of that railway, and those are the two points for which I contended at our last meeting and for which I contend at the present time.

Some member of the committee paid me a very graceful tribute in suggesting that I was counsel for the witness or the Canadian Chamber of Commerce. I think the president of the Canadian Chamber of Commerce will agree with me when I say that outside of an exchange of Christmas greetings last year we have not seen one another nor have I been in collaboration with any member of the executive or with any other person connected with the Canadian Chamber of Commerce. But I am very happy to find myself in complete agreement with their suggestion, and their suggestion which has been very carefully put before us by their chairman bears out the statements I endeavoured to make at the last meeting. I am hoping that this committee in the end will see its way clear to adopt some amendment relative to the consolidated balance sheet of the Canadian National Railways so as to show a true picture. I do not care whether you create a securities trust corporation and I do not care what you put into that corporation so long as we maintain that complete picture in the consolidated balance sheet of the Canadian National Railways.

Mr. BEAUBIEN: Would you be in favour of all railway companies in Canada putting in their balance sheets what they have received from the Dominion government in the way of loans, subsidies and so on? I understand the railway companies have received great tracts of land in this country and have made a great deal of profit out of them.

Mr. WALSH: I understand, of course, that those lands and other grants were given to all railways in their initial stages, and some of those grants are represented in the railways that the Canadian government has taken over—the Canadian Northern in particular.

Mr. BEAUBIEN: Would you be in favour of having them placed in the assets every year?

Mr. WALSH: You are referring, I presume, particularly to a privately-owned railway company that has received some assistance. Of course, we are not concerned very much with how they make out their balance sheet except—

Mr. BEAUBIEN: Certainly we are.

Mr. WALSH: Except in so far as they must comply with the law. The law compels them to show, as it does any other corporation, their real condition, and they cannot do otherwise than show their real condition.

Mr. DEACHMAN: They should show their real condition after this reconstruction has taken place. That represents the real condition of the Canadian National Railways.

Mr. WALSH: I do not know whether I have the support of other members of my party in this respect; but I do not believe that the present bill even goes far enough in breaking down the capital structure of the Canadian National Railways. I would have no objection to breaking down the capital structure of the Canadian National Railways to reasonable proportions, providing always that we have the consolidated balance sheet of the Canadian National Railways giving us the exact condition of that railway from the beginning of time. Now, I can say that we have made tremendous progress this morning.

The CHAIRMAN: I think we might make more progress if we considered the bill clause by clause.

Mr. MAYBANK: As I understand it, what the witness is after is to get some sort of statement into the balance sheet which will show that that is not the true picture. Consider the paper company to which Mr. Deachman referred. He said, supposing that such and such a company becomes reorganized should there not be upon the balance sheet of that company something to intimate to me that a reorganization has taken place and something about the reorganization so that I can get a pretty fair picture from the published reports of the reorganized company showing the amount of money, perhaps, which because of the bankruptcy was formerly taken away from the various members of the investing public? Now, as I understand the witness, that is not quite what is desired, but simply an intimation to the public that this new balance sheet that we are propounding is not the full story of the Canadian National Railways—in fact, that there should be an intimation between 1867 and the present time that there has been quite a bit of history written around the Canadian National Railways which is not to be found in that balance sheet. As a matter of literature that might be all right. From the viewpoint of the writing of balance sheets it might be a good idea that all balance sheets should tell the story about the past history of companies. It would seem, from what has been said, that it would be quite sufficient if on this balance sheet—this new balance sheet—we were to record, “the above is not the full story because there was a reorganization of this company in 1937; there likewise were other steps taken with relation to the finances of this company in 1932 and in other years.” That would seem to answer the purpose with a further note, “And the facts relative thereto can be found in the public accounts of the Dominion of Canada.” We might then go further and say that in act number so and so—whatever bill No. 12 will become—will be found various schedules of debt liabilities which used to be written into this balance sheet but which in 1937 we found to be ridiculous and, therefore, we discontinued them. That statement might appear at the end of the balance sheet. In fact, there might be a

very long story of that nature. When the witness is advocating telling some of the story, surely he would be willing, to be consistent, to advocate telling the whole story in connection with the Canadian National Railways. Weave into it the aspect of the railways introduced a little while ago by Dr. Young including the story of the Intercolonial and its aid to confederation. That might also be put into the balance sheet. Surely the Canadian Chamber of Commerce, if it wants the whole story would not be advocating that. If it is, I would like to hear it, but if it is not advocating that it is advocating putting into the balance sheet something very considerably less than the truth.

To me this whole argument this morning has an air of unreality. The fact of the matter is that we want to get a lot of dead weight out of this balance sheet; because some people—say unscrupulous people—are deliberately making use of it. The fact that this story of the balance sheet as it has hitherto existed does not really give a proper picture of the railway is a fact upon which people are seizing from time to time in all sections of this country to damn this road. Now, we want to get this railroad into such a position that people can see, not the whole history of this railway, but rather what this parliament considered was a fair capitalization of it and one upon which it could be expected to show a measure of success year after year. Probably this is not the final reorganization of this railway. These accounts may still be too high. For to-day at any rate it would seem to be clear that these items in the schedule should not any longer be charged. That seems to be the purpose. My idea in wanting to see these accounts written down to reasonable proportions is to prevent the unscrupulous use of the accounts of the Canadian National Railways by persons who have particular ends to serve and who are not connected with the good of the Canadian National Railways. Of course, it goes without saying that in these remarks I am not including the witness.

Mr. VIEN: It might be interesting to know to whom the hon. gentleman is addressing his remarks.

Mr. MAYBANK: I have no doubt it would be interesting to know that and were there time I might proceed to tell the committee, but I do not think it is necessary. Not only that, but I believe that most people about these houses of parliament know already without my telling them. Consequently there will be no need to go further into that. I think the sooner we arrive at a point where it will be a little less easy to do as I have suggested some people in this country are doing the better it will be for this railway and for Canada.

Hon. Mr. STEWART: As one lawyer to another, may I say to my friend who has just spoken that the parallel which he seeks to draw between the private company and the Canadian National Railways, I think does not exist.

Mr. MAYBANK: I did not seek to draw any parallel.

Hon. Mr. STEWART: You were comparing what might be done by a private company as to history. You see, we regulate that by provincial legislation, and when a company proposes to sell stock, under the laws of most of the provinces, it must issue a prospectus and the prospectus must contain exactly what the law of the province states must be sent out. Now, this is an entirely different matter. The Dominion of Canada is dealing with one of its own assets, the Canadian National Railways, and the last part of my hon. friends argument as to writing down this capital to have some relation to value is what the Duff Commission recommended; but it cannot be suggested by the wildest stretch of imagination that that is what we are doing. We are not doing that to bring it into relation with the earning value of this company, with the value of its assets.

Mr. BOTHWELL: We are taking a step in that direction.

Hon. Mr. STEWART: I do not know about that. You are not doing what the commission recommended; you are not putting it on the basis that the gentleman who has just spoken says it should be put on. That may be very desirable,

but that means going very much farther than this. That gentleman speaks about the enemies of the Canadian National Railways. I do not know whether he desires to suggest that any person who criticizes this bill is an enemy of the Canadian National Railways.

Mr. MAYBANK: No.

Hon. Mr. STEWART: Then, I do not see the relevancy of his remark. I am just as good a friend of the Canadian National Railways as the hon. gentleman who has just spoken, and anything that can be done to put that railroad on a better basis will have my hearty support. I come from a railway town, I know the railway men and I know their problems and their difficulties. I am interested in the Canadian National Railways. But again I want to point out that this bill, if enacted into legislation, will not add one dollar to the revenue of the railway, will not decrease its operating expense by one dollar.

Mr. DEACHMAN: Are you opposing the recapitalization?

Hon. Mr. STEWART: My position will be perfectly clear when I get through.

Mr. DEACHMAN: Thank you.

Hon. Mr. STEWART: As I have said, it does not add anything to the revenue; it does not decrease the deficits, and it does not affect the rate structure. It does not reduce it, and it does not really seem to help the situation from the standpoint of those who are anxious to help the railway. There are certain features of this bill about which there is no controversy and to which we have no objection at all.

By Mr. McLarty:

Q. May I ask Mr. Morgan one question to clear the matter up in my mind? The suggestion made in the brief is that if these items which are being written off as liabilities from the balance sheet were carried in the balance sheet in that way the effect would be largely to nullify any benefit that would be derived from this bill. I think in your later suggestion you stated that some notation might be needed as a footnote, simply referring to this bill when it became an act, and a brief statement that the capitalization was modified by reason of act so-and-so of 1937. Is that your position in connection with it?—A. It is partially what I want to say.

Q. May I ask this question? A statement of the deficits since 1932 has been carried in the consolidated revenue—A. Yes.

Q.—footnote, showing what the accumulated deficit has been and what the deficit is for that year.—A. Not the specific figures with reference to the capitalization.

Q. The specific figures of what the accumulated deficit has been and what it is for that year. I feel it is going unnecessarily far, if we have reference to the specific legislation by which recapitalization was effected. Anyone who was sufficiently interested can easily obtain that information because it is available in the public accounts.—A. On the other hand—

Q. I think you will admit such a thing is never done in the case of a private corporation.—A. No; but a private corporation would go into liquidation; whereas the public of Canada still own that railway that still owes the money.

By Mr. Maybank:

Q. Does not your proposition come down to this: recast your capital structure and at the same time on the same page or near it leave it cast precisely as it was before?—A. No; it does not. Recast your capital structure, if you want to use that; but don't fool yourself or fool the public.

Q. It won't be fooling ourselves.—A. You fool nobody, but let us show what the total deficit is to be, and what the deficit is for that year. It is not very much, but it is clear to everybody—

By Mr. Deachman:

Q. What is the object of that?—A. So that when you are looking at the balance sheet of the Canadian National Railways we will see what it has cost us.

Q. Why not apply the same thing to my friend the paper company so that when we look at the balance sheet we will see what it has cost the people of Canada? I cannot distinguish between the people of Canada and the government. We are not indissoluble; we are not the same thing.

Mr. MAYBANK: Not indissoluble, no.

By Mr. Kinley:

Q. Mr. Morgan, after all, in a private business costs do not count; it is values that count, is it not?—A. Yes.

Q. We are dealing with values. The intent of this bill is to eliminate these things from the statement that have no value. Now, why not make a clean job of it instead of doing it with one hand and spoiling it with the other. The bill is clear to anybody who wants to see it and read the statement in the future. Do not forget, it seems to me that the bill is clear.—A. In reply to that, Mr. Chairman, let me say that I do not agree with the fact that the bill is clear. If anybody can make out what the balance sheet of the Canadian National Railways is, unless he is a chartered accountant, by reading this bill as drawn, he is more than an ordinary business man or more than an ordinary taxpayer; because it may be very clever and probably is very clever accountancy, but I am sure I could not understand the result of the thing and I doubt if very many people could.

By Hon. Mr. Howe:

Q. What is it you cannot understand?—(No audible answer.)

Mr. HEAPS: The business people of this country very often have suggested to us in parliament that we should run our business in a businesslike way. I quite agree with a good deal of that, Mr. Chairman, but I feel in regard to the Canadian National Railways they are asking something different. Now we are being asked to make a special entity out of the railways and not run them in accordance with what we might call ordinary business ethics. For instance, the Canadian National Railways in the first place are not in the same position as a private concern. We all readily admit that. When they were taken over by the government it was a question of whether they should go into bankruptcy or whether the government should take them over. I think if people at that time could have seen what has happened since then probably the government would not have taken the railways over but would have allowed them to go into liquidation. The government took over the railways and took over the huge liabilities. The government cannot do what a private business concern can do for the simple reason that to-day the bonds are guaranteed by the government. In the case of a private corporation during a time of depression the private corporation or a great many private corporations do not have to pay interest on their bonds or on their shares. The government because of the guarantee by them were compelled to pay interest on all these bonds. If the government to-day were in the position of a private concern and did not have to meet its interest obligations its balance sheet would be probably no different from a great many balance sheets of other business concerns during the past few years. According to the railway report that we have the interest charges alone on the bonds guaranteed by the public of Canada, apart altogether from the other interest charges, amount to over \$50,000,000 per year.

Mr. VIEN: They are not shown.

Mr. HEAPS: Shown in the report of the C.N.R.

Mr. VIEN: I do not believe so.

Mr. HEAPS: On page 19 of the annual report of the Canadian National Railways is shown the following: "Interest due public on long-term debt, \$53,468,792.22."

Mr. VIEN: To the public.

Mr. HEAPS: Interest to the government is also shown, I think, in another part.

Mr. WALSH: It was eliminated last year.

Mr. HEAPS: Interest to the public which is on guaranteed government bonds. If we were in the position of a private corporation we probably would not need to pay that interest charge on those bonds and a good deal of the deficit which we are compelled to show year after year would probably not be shown in the balance sheet.

Mr. VIEN: Why not?

Mr. HEAPS: For the simple reason that we would not pay interest on the sounds like a private company.

Mr. BEAUBIEN: The company would not earn them to pay them.

Mr. HEAPS: Yes.

Hon. Mr. STEWART: It would be a liability.

Mr. HEAPS: In any case, private companies do not pay past dividends.

Mr. VIEN: Dividends and interest on bonds is a very different thing. If it is the guaranteed interest on preferred stock it might not be shown; if it is not cumulative it could not be shown as a debt, but the unpaid interest on bonds outstanding must be carried as an unpaid liability.

Mr. HEAPS: Yes, but a large number of shares have been issued which are almost equivalent to capital on which there has been no interest paid.

Hon. Mr. STEWART: It is a dividend. That depends on profit.

Mr. HEAPS: Well, if there are no profits the private company does not pay.

Hon. Mr. STEWART: No liability on stock—

Mr. HEAPS: We are creating a very fine dividing line. All we can say from a dividend standpoint is that these interest charges are not met, and because it is the government we are compelled to meet them. In that situation we are in a completely different position from that of a private company, and consequently we have carried for years back in our balance sheet accumulated deficits which a private company probably would not have shown. In that respect I say we are in a completely different position from a private company. Now, as I understand it, what this bill attempts to do—and I think we are losing sight of that fact—is to prevent duplication as between the government accounts and the railway accounts. In that respect I think everybody ought to be agreed.

Mr. VIEN: We do agree.

Mr. HEAPS: If we are agreed I do not see what all the discussion in this committee is about. I think the bill ought to be approved so that the railway can get down to a sound basis so far as its capital structure is concerned. So far as the past deficits are concerned I believe everybody knows what they really are. I agree with some of the statements made by my hon. friend, Mr. Stewart, that it is not going to affect the railway to any great extent in regard to its operating deficits or operating costs. I do not think it is going to have any great effect in that regard. I think from the standpoint of clarity as between, shall I say the double debt of the railways and the double debt of the government, there has been such a conglomeration of accounts it has been almost impossible in the past to understand what they are. If this bill improves that situation, and I understand it does improve it by clarification, then I think the bill is well worthy of our support.

Mr. VIEN: Mr. Chairman, I hope when we speak to this bill in this committee we shall not be subject to insinuations that we are either opposing the bill or fighting the interests of the Canadian National Railways on anybody else's behalf. We are here in this committee trying to do exactly what the Minister of Finance and the Minister of Transport said in the house. The Minister of Finance in the house said this:

When the bill is referred to the special committee the most searching examination will not only be permitted but invited, to the end that we may, if possible, evolve a set-up, which will be realistic in so far as it relates to the property as it now stands and at the same time will not disguise from the Canadian people the amount of money which all down through the years they have invested in this great railway undertaking.

The only purpose of this committee is to try to study the draft that is being submitted to it to see whether this will have the effect of helping the management properly to carry on, and at the same time help the Canadian people at all times to have before their eyes a true picture of the situation. Some people say, "why don't you scrap everything that you cannot carry and forget about it?" Well, that is exactly what we do not want to do. We want those who will come after us to know what we have done with their railway property. We are only trustees, and we should not act in such a manner as to cloud the true facts. It may be a good thing to revamp the book-keeping and the accounting system of the Canadian National Railways so as to eliminate from the balance sheet certain items that should be transferred somewhere else. If there is duplication I want to state that I for one want to change it. If there is any duplication as between government accounts and the railway company's accounts which appear to encumber the railway and the government with the same indebtedness twice, I do not believe that any one reasonable man can stand up and suggest that it should continue. But it is exactly how the last sitting of the committee concluded. We came to that very point. As Mr. Morgan has mentioned, it is not easy for a layman in reading the public accounts or in reading the financial statement of the railway itself to find the true story. It was with that end in view that we asked Dr. Clark to come here this morning; and I should like, Mr. Chairman, if I am in order, to ask that Dr. Clark be—

The CHAIRMAN: If there are no more questions to ask Mr. Morgan—

Mr. KINLEY: May I ask one more question.

Mr. VIEN: I should like to finish my phrase, at least. —asked to tell us the history of the financing of the Canadian National Railways and its component parts as reflected in the public accounts and as reflected in the present statement of the Canadian National Railways with the view of finding out to what extent we can agree with the present bill.

By Mr. Kinley:

Q. Mr. Morgan, your remarks were along the line that the people of Canada should know. I think there is another aspect to this case and a very important one. May I ask you this: do you think that this bill as drafted is unfair to competing private interests in Canada?—A. Mr. Chairman, in answering that I think first there is one point that we ought to bear in mind and that is, I have heard it stated—it is very generally stated in this committee and throughout the country as a whole—that we have a private corporation and the Canadian National Railways. I do not think there is such a thing as a private corporation.

Q. I agree with you. One is just as much public as the other.—A. Yes. After all any company that has its stock on the market you and I can go and buy and we can go and sell—and there are thousands and thousands of shareholders in this country and other countries—is not a private corporation in my opinion.

Q. If the other railroad got into trouble to-morrow we would have to save it.—A. That is just a point we ought to bear in mind.

Q. My question is do you think that this bill imperils or is unfair to the competing private industry—I will say, to the other railroad?—A. I do not think that I should like to answer that.

Q. You find it a little difficult to answer?—A. May I put it this way; we are dealing with bill No. 12, which is in respect of the Canadian National Railways. As long as we bear in mind that we are keeping our own public informed of exactly what the true situation is in regard to that railway, then I think that we have accomplished our purpose.

Q. You would not regard it as taking advantage of the other system?—A. I do not know that one has any relationship to the other at the moment.

Q. Oh.—A. In this bill—naturally the other system is the most important factor in the railway situation of Canada. I agree with you that bill No. 12 is not directly affecting the other railway in respect to its operation.

By Mr. Deachman:

Q. There is another question that I should like to ask you. Has not the C.P.R., speaking of private corporations, written down its investment in the Sault line? Is not there somewhere a parallel between the dominion government writing down its investment and the Canadian Pacific writing down its investment?—A. Again I am going to fall back on my opening remarks that I am not a chartered accountant, not even a good accountant.

Q. I was quoting——A. I do not want to get into an argument along those lines.

Q. I was quoting from a statement I have, which is the annual report of the C.P.R. for the year ended December 31, 1935, in which the following appears:

“A further appropriation of \$4,000,000 was made to provide for possible writing down in the future of your companys investment in controlled railways in United States. The reserve for this purpose is now \$16,000,000.”

I suppose you might say they were transferring a certain amount of the inactive assets, because the statement is, “the reserve for this purpose is now \$16,000,000.” There has been some writing down there.

By Mr. Bothwell:

Q. I should like to ask Mr. Morgan another question. I presume your executive have gone through this bill carefully and considered the various items that are to be readjusted. Have you any complaints to make on any of those items that it is proposed to write out?—A. In answer to that question, Mr. Chairman, I may say that we are not taking exception to the bill as a whole; it is just that we want a clarification in the bill.

Q. I am to understand that so far as you are concerned you are taking no objection to the readjustment as set up in the bill except——A. That is it.

Q. The only thing then is that you want the balance sheet of the Canadian National Railways each year to set out the accumulated deficits and the picture of the railway.—A. That is it exactly.

Mr. BOTHWELL: Mr. Chairman, it seems to me that the whole situation has narrowed down to a very small one. It seems that the minister in introducing this bill is of the opinion that the adjustment should be made and that accounts should be kept in the public accounts of Canada. The other question then seems to be, in order to apprise the public, whether at the bottom of the

annual statement of the Canadian National Railways we shall insert an item that the record of the Canadian National Railways can be found in the public accounts of Canada or shall we put in there: the following is a statement of the accumulated deficits.

The WITNESS: That is it.

Mr. BOTHWELL: It seems to me there is only one question, and that is whether you are going to have that set out exactly in the balance sheet or simply have a note that you can find the actual facts some place else. I can scarcely conceive of the Chamber of Commerce going to the expense of gathering information that is compiled in this literature placed before us this morning in order to bring to our attention that one little fact, that one little difference of opinion.

Mr. VIEN: I would suggest that it should be more than a footnote. I would suggest that it be an appendix, carrying the figures. With respect to Mr. Deachman's questioning of Mr. Morgan I should like for the purpose of completing the record to ask Mr. Morgan this question: do you find a difference between a company writing down its assets or inventory, value of its assets or inventory and a company writing off its indebtedness?

The WITNESS: Yes, of course. In the case of the Canadian Pacific writing down the value of the Sault lines it is simply reducing the inventory, its assets.

Mr. VIEN: Yes.

The WITNESS: In the case of this recapitalization it is writing off the indebtedness of the Canadian National Railway Company.

Hon. Mr. HOWE: It is an exactly parallel case. The present company in one case is the Canadian Pacific Railway and in the other it is the Dominion government. The Dominion government found it necessary in one case to advance a certain amount of money for deficits and other money to replace capital that was lost. In each case they are writing it off. It is a proper thing in both cases.

Mr. VIEN: I agree with respect to public accounts. If we were dealing with public accounts of the country, writing down the amount of the assets with respect to loans made to the Canadian National Railways, it would be so. It would be a parallel case with the Canadian Pacific reducing the value of the Sault line on the assets side of its balance sheet; but we are dealing with the Canadian National Railway Company and its annual financial statement. I see a certain difference, and I speak subject to correction on this point. I think there is a fundamental difference between writing off the indebtedness of the Canadian National Railways and writing down either in the public accounts the value of the loans made to the Canadian National Railways shown as accounts receivable, or the value of your inventory on the assets side of the balance sheet.

Mr. DEACHMAN: I suggest we form the Dominion government into a private corporation; then we could do what we liked.

Mr. VIEN: I do not believe it would lead us very far. I now go back to Dr. Clark.

By Mr. Walsh:

Q. I want to ask Mr. Morgan a question. Mr. Morgan, as president of the Chamber of Commerce of Canada— —A. Chairman.

Q.—you recognize that the amount of money involved is roughly \$1,800,000,000, and of that amount \$690,573,400 is represented in actual cash. Now, your organization has no objections to clearing off the books of Canada and the railway the balance of that \$1,800,000,000 that is not represented in cash; is that right?

The CHAIRMAN: He said so, in writing.

By Mr. Walsh:

Q. What you are concerned with is what we are doing with the \$690,000,000 of cash advanced by the government.—A. Well, I have not got the statement in front of me, Mr. Walsh, but I do not want to get into any discussion and I do not feel competent to get into discussion on the actual way the balance sheet should be drawn. I am speaking again as a layman, and let me just refer back and stick to that point. I do not feel competent to discuss the balance sheet in any other way.

Q. I am very much more of a layman than yourself. There is this point I want to get perfectly clear. Your organization has no objection to wiping off or writing off, shall we say, which is a better term, anything that does not represent actual cash?—A. I think that is so.

Q. Now, may I ask you this question: has your organization in preparing this memo. that you have submitted this morning, had the benefit of the advice of an expert accountant or statistician or economist?—A. Well, Mr. Walsh, we have a number of them; but the executive of the Canadian Chamber is composed of business men. This has been their idea. To try to put before you a very simple point of view and say that we simply want clarity in the statement of the Canadian National balance sheet which I do not think is there now, and which would not be difficult to get.

Q. You make this statement in your memo. submitted to the committee: “first, because we believe with the ministers that the proposed adjustment of the capitalization of the Canadian National Railways should not remove from the knowledge of the Canadian people the accumulated costs of the National system. Rather there should be carried forward on the balance sheet itself, a complete and continuous record of such accumulated costs from year to year.” That is the unanimous opinion of your executive and you feel it is the opinion that would be borne out if you submitted that question to the various boards of trade that you represent here this morning?—A. As far as I can—

Q. In other words that is the accumulated opinion of all the boards of trade from one end of Canada to the other?—A. I would say we represent, and I can only deal with our representation—it has not been submitted to the various boards of trade, because after all we did not feel it was a thing we were justified in submitting. The ministers’ statements themselves are quite clear in regard to what they want to do. It is exactly what we want to do, and it would be more or less *infra dig* in my opinion to go ahead and make a point of getting an opinion in regard to what the minister has said quite clearly he wanted to do. It is what we are asking; we do not think the bill as drawn is clear on that one point.

Q. Now, it is perfectly clear that Mr. Howe in his statement and Mr. Dunning in his statement indicated what they had in mind. They made that perfectly clear. Your interpretation of their remarks is that your suggestion meets with their express suggestion?—A. Yes.

Q. I should like to point out to the committee that in April, 1935, when this committee was in session one of the witnesses who appeared before the committee was Mr. Roberts, who at that time was connected with the Department of Finance, I understand. He was asked a question with regard to the balance of the \$1,800,000,000. This is the question: “With regard to the balance of the \$1,800,000,000 you have no particular concern?”

“Mr. ROBERTS: Yes; there is one thing I should like to say. In dealing with these accounts Mr. Matthews stated that the position of the dominion accounts with the railway accounts exhibited a condition that you would not find in a business where there was a corporate company as parent and then a subsidiary organization, because he implied that we had written out of our books those loans to the railways. As a matter of

fact they have not been written out. They stand there on the assets side to-day, the assets side of the books representing expenditures, but for the purpose of exhibiting our net debt position to the country and to the world at large, we do not take them into account as assets because they have not any realizable value."

Then Mr. Hanbury asked this question:—

"You keep them in the records?—A. Yes. So far as book-keeping is concerned there is no inconsistency between our system and that of a commercial organization."

In other words I read into Mr. Roberts' remarks that he is urging what the Chamber of Commerce is urging, what the minister of transport is urging, what the minister of finance is urging, but which, Mr. Chairman, I fail to find in the bill as presented to us; and I hope when we go through it clause by clause that that condition will be removed, with the full consent of the minister most concerned, so that we can present a unanimous report from this committee.

Hon. Mr. HOWE: I have an amendment prepared which I will offer at the proper time.

Mr. YOUNG: I would like to draw a little parallel to know if I have the exact principle Mr. Morgan would like to present to this committee. Let us suppose that we have a young man who up to the time he is thirty years of age has led a rather irregular life, has had difficulties, troubles, trials and tribulations; and at the age of thirty he decides to reform. From there on he leads a very respectable life. You would not want to have his past written up in some form and constantly kept before the public—this horrible past—so that it could not be forgotten, would you? In other words, you would not want to remind the apostle Paul that he once was Saul of Tarsus.

Mr. MAYBANK: I think the gentleman's position is that you cannot reform after thirty.

Mr. YOUNG: Is that what you want done?

Witness retired.

Dr. W. C. CLARK, called.

Mr. VIEN: Dr. Clark, I think you understand the point I am stressing.

Dr. CLARK: I believe I have your general point. I think, probably, a good deal of my testimony has already been covered by some of the statements made this morning but, perhaps, I can go over some of the general points, and if I do not cover all that is in your mind you can ask me questions afterwards.

First, if we go to the public accounts for the year ended March 31, 1936, we find the gross liabilities of the Dominion of Canada represented at \$3,431,000,000 odd. On the other side offsetting these in part are certain assets, certain "active" assets which we regard as realizable assets. Some of them are good, some of them are cash, gold bullion, and so on. Perhaps, some of them are not quite so good. But on the whole they are what a banker would regard as reasonably sound assets that could be offset against the gross liabilities of the Dominion. They amount to some \$425,000,000. Deducting this amount from the total liabilities—

Mr. VIEN: Where are they shown?

Dr. CLARK: The first items on page 2 of the public accounts under assets. Deducting that \$425,000,000 odd from the gross liabilities of \$3,431,000,000 odd gives you what we regard as our net debt figure, \$3,006,000,000, at March 31 last. The net debt figure is, I think, the important figure. It is what the banker looks at when he comes to do a piece of public financing.

The CHAIRMAN: Would you repeat the figures?

Dr. CLARK: Gross liabilities \$3,431,000,000 odd, active assets \$425,000,000 odd, leaving a net debt of \$3,006,000,000 odd, which I say is the crucial figure. Now, there have been in the past certain other items carried for a time in this group of active assets at the top of page 2 which have been transferred for reasons which were considered good and sufficient, down into the net debt figure.

The action that was taken by Sir Henry Drayton in 1920 when he was finance minister was referred to this morning. At that time there was a gross liability of \$3,014,000,000 and the net debt was then shown as \$1,964,000,000. Sir Henry Drayton felt that there were included in the active assets certain items that were not really good assets and should not be there, so he decided, and so stated in his budget speech, that certain of these items would be transferred down to the net debt items.

Mr. VIEN: What year was that in?

Dr. CLARK: 1920. May 18, 1920, was the date of his budget speech. Some of the more important items in the class he desired to transfer were advances to the Canadian Northern Railway Company \$140,000,000, the Grand Trunk Pacific Railway \$95,000,000 and the Grand Trunk Railway \$1,000,000 odd. At the same time he gave his reasons for making that transfer as follows:—

“It is obvious that the advances to the Canadian Northern, the Grand Trunk Pacific and the Grand Trunk Railway companies cannot be treated as active assets. They are not at the moment realizable; further, no interest is being paid, and in some cases, the principal as well as the interest is overdue.”

Mr. MAYBANK: Just as a matter of record, are you reading from the budget speech of that year?

Dr. CLARK: Yes.

Mr. MAYBANK: What is the page?

Mr. DEACHMAN: Page 2478.

Dr. CLARK:

“As is well known Canada is now the owner of the Canadian Northern, receiver for the Grand Trunk Pacific, and steps have been taken for the acquisition of the Grand Trunk. While the railways have potential value, at the present time the fact is that the country itself owns the Canadian Northern and is responsible for the operation of the Grand Trunk Pacific, with resultant heavy cost to the taxpayer.

Assets which are not readily convertible, as the specie reserve is convertible, or are not interest producing, are not such assets as ought to be deducted from the gross debt. They are inactive, they are items of such a character as might well be placed in a suspense account. At any rate, whatever may be their future value, however great it may be, they are not assets of such a character as to directly reduce the gross debt any more than the other capital accounts of the country ought to be deducted from it.

I would therefore reduce the deductions made from the gross debt by the railway items already referred to. . . .”

And then he goes on with certain other items.

Mr. BEAUBIEN: When those amounts you have mentioned were absorbed in the public debt of Canada they still continued to be shown on the annual report of the Canadian National Railways, did they?

Dr. CLARK: Yes.

Mr. VIEN: As an asset.

Dr. CLARK: As a liability of the Canadian National Railways.

Mr. VIEN: Oh, yes; but that was writing down the value of the assets on the public accounts.

Dr. CLARK: It was not writing down their value; it was transferring them from the category of active assets down into the net debt figure. I will come to that later on.

Now, in the public accounts for that year, the introduction to the public accounts written by the then Deputy Minister of Finance states that in compliance with the instructions of the minister given in his budget speech he had transferred those assets from the active category down into the national debt figure.

Now, that was the start of that procedure. I think I am bound to say that the reasons which Sir Henry Drayton gave at that time for taking the action described are reasons which would appeal to the Finance Department at any time. They represent the attitude which we take to the treatment of assets in the public accounts which are not realizable, and are not paying any interest. We try to get them down into that lower category. We can do that on instructions from the Minister of Finance. We cannot actually write them off unless parliamentary authority is given for such writing off.

Now, coming back to the public accounts for last year. In the active assets the only railway items you will find are included in the fourth head "Railway Accounts, per Schedule B," \$46,087,000 odd. If you look at Schedule B you will find that it includes the loans made under the railway financing acts, that is to say, loans for capital expenditures, debt retirement and acquisition of securities since 1932, certain loans for betterment or retirement of railway equipment, and then the purchase of equipment leased to the railway. Under Miscellaneous Current Accounts, Schedule E, you will also find \$15,748,000, representing Canadian Government Railways Open and Stores Accounts. Those are the only railway items which we regard as active assets in our accounts. They would not involve, if we consolidated the balance sheet of the National railways and the Dominion government, any duplications because what would appear in the Canadian National Railways statement as a liability would be offset by an asset in the Dominion government's books. So there would be no duplication there.

Now going down to the lower half of the balance sheet of the dominion, on page 2, you will find the caption "Net Debt represented by (A) Expenditure," with a group of important items totalling \$1,811,000,000; and then there is the consolidated fund below that. I think Colonel Vien is interested primarily in the nature of this (A) category included in the net debt.

Mr. VIEN: Yes.

Dr. CLARK: I think he is interested in what is actually in that group of items. I think you can fairly say that it consists of two types of items, first, capital expenditure, or expenditures that were originally regarded as capital expenditures,—and if you trace back the history of capital versus income expenditures in the dominion accounts, it is not always easy to find a dividing line. But these in part are expenditures that were originally treated as capital expenditures—"Public Works, Canals"; "Public Works, Miscellaneous"; and so on under "Territorial Accounts," if you look at schedule J, you will find part of the cost incurred in connection with the northwest rebellion. That did not create a capital asset in the ordinary sense of the term, but it was regarded as a capital expenditure in those days.

Now, that is the first class of items included in the net debt. The second class is what we call "non-active assets"; usually items which were originally up at the top of the page in the active assets section of the balance sheet but

which have been transferred in accordance with the procedure followed by Sir Henry Drayton in 1920. They have been transferred from active assets down into the net debt section of the balance sheet.

Mr. HEAPS: Could you give us one or two items as an illustration?

Dr. CLARK: Yes, I am going to mention certain items there. You will find "Public works, Railways, per schedule G, \$442,910,000," and if you look at schedule G you will find that the main item there is \$388,000,000 odd of government expenditure on the Canadian government railways which appears as a liability in the balance sheet of the Canadian National Railway system. It appears as a liability in the Canadian National Railways balance sheet; it appears as a liability in our books or rather as part of our net debt. Secondly, there are a few other things in that particular schedule, chiefly the Hudson Bay Railway, \$52,000,000 odd. We come down a little further and find "Railway Accounts (old), per schedule K," \$88,000,000, and here are included \$62,000,000 subsidies to and other costs incurred in connection with the Canadian Pacific Railway, as well as the Grand Trunk Railway debenture account \$15,142,000 and interest on that account. That Grand Trunk Railway debenture account of \$15,142,000 is one of the items you find referred to in this bill. It appears on the liability side of the Canadian National Railways balance sheet. It appears also in our net debt.

Then come down to the next item: "Railway Accounts (loans non-active), per schedule L," \$655,000,000 odd, and if you look at schedule L you will find that the schedule consists of the loans made to the Canadian National Railway system or its subsidiaries for capital purposes in the first place amounting, as I recall, to \$284,000,000. You will find there also the loans made for deficit purposes amounting to \$361,000,000. The whole totalling up to \$645,000,000. That \$645,000,000 total representing loans for capital purposes and loans for deficit purposes appears, of course, in the balance sheet as a liability of the Canadian National Railways system, and it appears also in our net debt. In this schedule you will also find \$10,000,000 representing the cost of Canadian Northern stock.

Now, as I understand the bill it is designed to eliminate the duplication that exists between the Canadian National Railways balance sheet and the balance sheet of the Dominion of Canada, and I think the practical importance of it, from my point of view, for instance, would be its relation to the financing of the Dominion and to the financing of the Canadian National Railways. It is true that periodicals and newspapers, in the London market and in the New York market, and to some extent in Canada analyze the liabilities of the Canadian National Railways and the net debt of the Dominion government without realizing that the duplication that has been spoken of here exists. This confusion affects the minds of the investing public. That, I think, is an important factor which affects the cost of our financing.

Mr. BEAUBIEN: In other words, they do not realize that it has already been absorbed?

Dr. CLARK: They do not realize that it has already been absorbed in the net debt of the Dominion.

Mr. YOUNG: It gives the wrong impression.

Dr. CLARK: It gives the wrong impression. It probably gives you the wrong price on your bonds too. In the last New York issue which we floated in January we had this point raised. The underwriters were naturally interested not only in our own picture but also in the picture of the Canadian National Railways, and we had to take them through the accounts of both the railways and the government in very great detail to explain just what the exact situation was.

I think, Mr. Chairman, I have covered the main points.

Mr. HEAPS: May I ask if you have with you the amount of duplication of the railway and the government?

Dr. CLARK: I think the figure given you already of \$1,528,000,000 is the correct figure.

Mr. McLARTY: Does this bill cover all the duplications as far as the Canadian National Railways are concerned?

Dr. CLARK: Yes, I think so. I think it covers substantially everything, yes.

Mr. VIEN: There are still in the new balance sheet to be proposed as appearing on page 13 of the bill certain capital stock and different government grants and long term debt and temporary loans which are still carried there.

Dr. CLARK: Long term debt to the public?

Mr. VIEN: No, the other one: Dominion of Canada temporary loans. Then you have capital stocks, subsidiary companies owned by the public.

Dr. CLARK: The temporary loans for capital purposes are included in our active assets, as I pointed out. They are merely in the process of being refunded to the public.

Mr. VIEN: I see. What I had in mind there to elucidate is this: when after the transfer of 1920 the non-active assets of the Dominion government which are now shown on page 2 of the public accounts of this year were transferred to the net debt side of the public accounts, it was an operation similar to that of a company which has invested in various debentures and seeing that there was no appreciable value in its investment writes them down to a dollar or so on its asset side; is that correct?

Dr. CLARK: Well, we did not quite do that. There was no writing down of the values of the figures. We cannot do that. We cannot write off assets except with the authority of parliament.

Mr. VIEN: I appreciate that. You always show these assets at their face value?

Dr. CLARK: We show the items, whether they are assets or capital expenditures, at their face value, at the cost to us.

Mr. VIEN: Yes, but when appreciating your liability to the public you deducted the active assets and you deduct nothing for these particular investments. Therefore, you had something similar—you have just explained it—but you had something similar to an ordinary company writing down its assets to one dollar.

Dr. CLARK: Yes. It is something similar.

Mr. VIEN: Therefore, any competent financier—and when you finance in the financial markets of the world you deal with competent financiers—may put up a smoke screen and try to buy your bonds at a cheaper price or cause you to pay more interest. They may draw a red herring across the trail. They know what they are doing. When they look at the public accounts of Canada no reasonably well informed financier can be misinformed by the form of our public accounts.

Dr. CLARK: May I say a word on that. I think that is true. I think we deal with the best financial men. I think we had the ablest of them dealing with this particular issue of ours on the last occasion. But they are apt to come to our situation with a misunderstanding. It takes days of work to explain to them just what the situation is to get them to a correct understanding.

Mr. VIEN: But the picture is there.

Dr. CLARK: I know that but we have to go through a great amount of detail in connection with railway accounts. And even though it were true that the underwriting group, the banker, the banking houses—three or four of them who bought the issue—fully understood the matter, you have to remember that

they are selling bonds to people all over the United States in that particular case, and the investors do not understand it. If they pick up the Canadian National Railways balance sheet without having it analysed in connection with the dominion's statement they do not understand it.

Mr. VIEN: Yes, but in your balance sheet presently shown in the public accounts of 1936 these various items are not shown as a liability against the public; they are shown on your assets side of the balance sheet.

Dr. CLARK: The money that we owe to the public appears over on the right hand page in the gross liabilities.

Mr. VIEN: I am asking a very different question. In the public accounts of 1936 these amounts of \$1,811,000,000 and \$1,194,000,000 are not shown as a liability.

Dr. CLARK: No; but they are included in the gross liability over on the other page. I repeat the statement I made before.

Mr. VIEN: I would like to be shown, for instance, where the \$1,800,000,000 shown on page 2 is reflected in the liability side on page 3?

Dr. CLARK: You might put it this way, Colonel Vien. The \$1,811,000,000 worth of funds we had to raise to make the payments shown in these expenditures items on the left hand page are part of the debt, the liabilities, the funded debt on the other side of the statement.

Mr. VIEN: Yes. On your liability side showing the total public debt of Canada you show \$3,431,000,000 as being the total which Canada owes.

Dr. CLARK: Yes.

The CHAIRMAN: Which includes the \$1,800,000,000.

Mr. VIEN: No. It does not include that. It simply shows the total liabilities of the country incurred so far for all purposes.

Dr. CLARK: Yes, that is right.

Mr. VIEN: Then on the asset side you deducted from this amount of total liabilities such assets which have an appreciable value?

Dr. CLARK: Yes, correct.

Mr. VIEN: And they are earning something?

Dr. CLARK: Yes.

Mr. VIEN: And you failed to deduct from the total liabilities on the assets side such assets which have no appreciable value. It is similar to the operation of a corporation writing down its inventory, or writing down, for instance, an amortization fund or a depreciation value from various assets shown on the assets side of its balance sheet.

Dr. CLARK: Yes.

Mr. BOTHWELL: Might I interrupt you a moment? I wanted to ask you something with regard to that \$1,800,000,000 that you are speaking of. Is that not included in the net debt figure?

Dr. CLARK: It is included in the net debt.

Mr. VIEN: It is included in the net debt in this way: it is shown on the asset side of your balance sheet, but there is no particular amount deducted on the assets side on that account.

Dr. CLARK: The only thing we regard as active assets are the group of items at the top of the left hand page.

Mr. VIEN: I am addressing myself to a very different point. I am saying that you do not show that as an active asset. Therefore, you do not include it in the figure of assets to be shown on your balance sheet as the real assets of the country.

Dr. CLARK: Well, that is true, because we do not regard them as active assets.

Mr. VIEN: Exactly. You do not regard them as active assets. But it is not shown in so many words on your balance sheet as an indebtedness to the public.

Dr. CLARK: No. The indebtedness to the public is included over here on the right hand page.

Mr. VIEN: On page 3.

Dr. CLARK: Yes. In the total funded debt.

Mr. VIEN: It is not there; therefore, so far as the net debt or the gross debt of the country is concerned this will not change the picture at all.

Dr. CLARK: I am not sure. What do you mean by "this"?

Mr. VIEN: I mean to say that after this conversion with respect to the public accounts our net debt will still be \$3,006,000,000.

Dr. CLARK: Yes. It will only change the picture in so far as consolidation of the national railways balance sheet and the dominion's balance sheet is concerned.

Mr. VIEN: There is no real duplication. As an accountant, would you say there is a real duplication?

Dr. CLARK: Oh, yes, I would say so.

Mr. VIEN: I should like to be shown.

Dr. CLARK: Well, if these assets that we are speaking of, these advances to the railway for capital and deficit purposes and so on, had not been in this group of items on the lower half of page 2, but had been included up in the active assets, then the net debt figure would have been reduced by a corresponding amount.

Mr. MAYBANK: It becomes subtractible?

Dr. CLARK: Yes; the net debt showing now at \$3,006,000,000 would show at something over \$1,000,000,000.

Mr. VIEN: I understand that point. You did that in 1920. You consider that these assets had no value.

Dr. CLARK: Yes.

Mr. VIEN: The investing public thought they should not be shown to the public as an asset, an active asset of the company, so you wrote them off from the active assets of the company. You wrote them off?

Dr. CLARK: Transferred them out.

Mr. VIEN: You transferred them to the inactive assets side, but they are not shown as an obligation of the country; and to be a duplication there should be a liability shown in the books of the Canadian National Railways and a liability shown in your public accounts for the very same items.

Dr. CLARK: Not necessarily for the same items. The point is the net debt here is higher than it would otherwise be by the amount of these items that are entered down there.

Mr. VIEN: I understand that.

Dr. CLARK: That is our net debt.

Mr. VIEN: Oh, no. I understand that; I think it is simple, but it is more complicated when we come to duplication of obligations encumbering our balance sheet, the consolidated balance sheet of the country and of the railway system which is the property of the country.

Dr. CLARK: Would it not be true that if they are in the net debt figure of the country and also on the liabilities side of the National Railways sheet there is duplication?

Mr. VIEN: No; because they have been written down, so to speak; they have been transferred to the non-active assets side.

Dr. CLARK: Therefore included in the net debt.

Mr. VIEN: In the net debt?

Dr. CLARK: Yes.

Mr. VIEN: Therefore I do not see that it would produce any result with respect to the public accounts of the country when you go to a prospective borrower. It does not change either our financial situation or the financial situation of the railway company.

Dr. CLARK: If the prospective borrower were content to look solely at the balance sheet of the Dominion that might be true; but he does not. He says you have a government owned railway here; I want to see the balance sheet of the railway, and he adds the liabilities that appear on the railway balance sheet to the net debt figures. He is apt to do that first. You have to explain it to him, if you are going to avoid that particular error.

Mr. BEAUBIEN: When were these items bringing up the \$1,800,000,000 transferred? When was the total amount transferred to the net debt of Canada?

Dr. CLARK: When were they transferred?

Mr. BEAUBIEN: Was it 1920?

Dr. CLARK: All through the years, you see—

Mr. BEAUBIEN: When was the last transfer?

Dr. CLARK: The last?

Mr. BEAUBIEN: 1932?

Dr. CLARK: I would have to check into almost every item to tell you. There are lump sums here.

Mr. BEAUBIEN: It is some time since that has been transferred.

Dr. CLARK: It is some time since these active assets were transferred down to the non-active category.

Mr. BEAUBIEN: And it is transferred to the net debt of Canada?

Dr. CLARK: Yes.

Mr. BEAUBIEN: In the month of January this year you floated a loan on the New York market.

Dr. CLARK: Yes.

Mr. BEAUBIEN: And it was underwritten.

Dr. CLARK: Yes.

Mr. BEAUBIEN: And these people came up here to find out about the net debt and they added the national debt of the Canadian National to the balance sheet.

Dr. CLARK: They did not add the national debt; they came to find out what the situation was, and you have to be very careful—

Mr. BEAUBIEN: They must have had the impression the net debt of \$3,006,000,000 of the Canadian government and the net debt of the Canadian National Railways from their balance sheet was really the net debt of Canada, on account of Canada owning the railway. They must have been under that impression to come up here to get the information.

Dr. CLARK: I would not say what their definite impressions were; I would not like to put that in their minds, but it certainly is true that they had to sit down with us and consider both our balance sheet and the balance sheet of the railways to find out what the true picture was, and in the prospectus we had to indicate the degree of duplication that did exist.

Mr. BEAUBIEN: If this bill goes through it eliminates that degree of duplication.

Dr. CLARK: Yes, it will simplify the difficulty very materially.

Mr. YOUNG: I should like to ask Dr. Clark this question: is bill No. 12 not doing in principle exactly what Sir Henry Drayton was after in 1920?

Dr. CLARK: Yes, I think so.

Mr. YOUNG: In principle?

Dr. CLARK: Well, the principle of the thing is the same. Of course, Sir Henry Drayton was making a change in our books; what the present bill proposes is to make changes in the railway books.

Mr. YOUNG: In order to conform with ours.

Dr. CLARK: In order to conform with ours. Really, this action follows from, in part, what Sir Henry Drayton did in 1920.

The CHAIRMAN: Are there any other questions?

Mr. VIEN: There is a great difference between the operation of 1920 and the operation which we are doing to-day.

Dr. CLARK: There is a difference.

Mr. BOTHWELL: One is complementary to the other.

Dr. CLARK: In the present bill we are dealing with railway accounts, then we were dealing with dominion accounts. What we are doing now in connection with railway accounts follows from and results very largely, if you like, from the other.

Mr. VIEN: The railways will not be richer, nor will the country be richer. The figures are set out in a different manner which may be a more gracefully painted picture to the prospective investor.

Mr. YOUNG: A truer appreciation of the facts.

Dr. CLARK: Yes, a truer picture.

Mr. VIEN: In what particular is it truer?

Dr. CLARK: Because, if the present situation leads to confusion in the investor's mind as to what the consolidated debt of the dominion and its subsidiary is, then anything that you can do to avoid that confusion gives him a truer picture.

Mr. VIEN: Now, if appendix No. 5 on page 13 A is adopted what will be the impression of the prospective investor?

Mr. MAYBANK: What will be the impression?

Mr. VIEN: Yes.

Hon. Mr. STEWART: On the same basis.

Mr. YOUNG: That is reading some man's mind.

Dr. CLARK: Well, I think he will see that—

Mr. VIEN: I do not know what there is laughable about it. I am sorry. I have not got the opportunity of so many hon. members of the committee, nor the technical knowledge of an expert accountant, but I do not know that it is laughable.

Mr. HOWDEN: The matter is so simple, I could not help but laugh. That is the real truth.

Mr. VIEN: My hon. friend is a greater expert and a greater accountant than I am.

Mr. DEACHMAN: I was responsible for the laugh. I said to the doctor, "ask the investor."

Mr. VIEN: I am saying, in your opinion, if I am right in my interpretation of your remarks, if the present accounting gives a wrong impression and a complicated picture to the prospective investor, then the new set-up will be more alluring in your opinion, to the prospective investor. Is that correct?

Dr. CLARK: I would say, more true, more realistic, Colonel Vien. I do not know whether more alluring or not. I would not pass an opinion on that. But I think he will recognize that what is being done here is essentially in large part to consider the dominion government as an owner, as a proprietor of the Canadian National Railways and the advances that have been made in the past to that railway system for capital purposes, construction purposes and so on, will be equity of the owner in the property, which owner is the dominion.

Mr. VIEN: Now, to accomplish what the hon. minister of finance said in the house, namely to give a set-up that will be realistic and which will not disguise from the Canadian people the amount of money which all down through the years they have invested in this great railway undertaking, would it not be advisable that the annual statement of the Canadian National Railways should have an appendix representing the financial history of the investments of the Canadian people in the undertaking.

Dr. CLARK: Well, Col. Vien, I would say as to that, that there is no question about it; the public accounts should contain a complete and true historical record of the aid that we have given in every form to the Canadian National Railway system. You should have everything, a complete chronological story of what the government has done for the railway, so that the tax payer, who is primarily interested, I think, in the public accounts, will be able to find out what this railway has cost us in the past and what it is actually costing us to-day. I do not think there can be any question about that. As I understand it it was part of the general scheme, the general plan here, to include such a comprehensive story in the public accounts.

Mr. BEAUBIEN: Is it not included to-day in your non-active assets?

Dr. CLARK: It is not included in the way that I would like to see it. I should like to put in the public accounts a much more adequate statement all in one place; one appendix, if you like, or in part of the introduction to the public accounts—the complete story so that the tax-payer who after all perhaps may not be very familiar with the reading of public accounts may find everything in the one place, and may see what has been done in the past, what the railway has cost the country and what it is costing us to-day.

Mr. VIEN: Should it not be repeated in the financial statement of the Canadian National Railways, because the Canadian National Railways come every year to parliament, as they must do, with their annual financial statement. Is not the proper place to have the appendix the annual financial statement of the railways? I think that statement should include the investments of the people in the undertaking.

The CHAIRMAN: Then you would have another duplication.

Mr. VIEN: It is not duplication because it does not enter into the financial structure as revamped; but it is a true picture of the situation, because it gives the country the detailed information of what parliament has done so far as the railways are concerned.

Dr. CLARK: I see no objection to that; but I do not think it should be a part of the balance sheet of the railways. I would think that if parliament had before it the full story in the public accounts it would be fully familiar with the facts; but I see no objection to including it as well as a memorandum or appendix in the railway's annual report.

Mr. BEAUBIEN: When Mr. Vien read this statement of Mr. Dunning's: "—if possible evolve a set-up which will be realistic in so far as it relates to the property as it now stands and at the same time will not disguise from the Canadian people the amount of money which all down through the years they have invested in this great railway undertaking," he was referring to the minister of transport and here is the statement of the minister of transport:—

From the inception of the proposed capital adjustment plan, it has always been considered that the accumulated costs of the National system to the dominion since confederation should be embodied in some form in public accounts as a perpetual record for all future parliaments as representing the people of Canada.

The CHAIRMAN: Gentlemen, as the minister has stated, there is a proposed amendment that is to be submitted to the minister of finance for his approval of the wording. I propose to give that amendment to Dr. Clark; I do not propose to read it to the committee before it has reached its complete form, but I think it will meet the wishes of the members of the committee.

Hon. Mr. STEWART: It seems to me that at this stage, and in view of the drafting of the amendment, we have accomplished all we can do. The amendment, when drafted and considered, may remove many of the objections and misunderstandings, and I think we would make more progress if we now adjourned, unless there is some additional information to be secured.

Mr. BEAUBIEN: Have you any requests from other bodies?

The CHAIRMAN: No. We are through in that respect.

The committee adjourned to meet Friday, March 5th, at 10.30 a.m.

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Standing Committee, 1937

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SESSION 1937

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

FRIDAY, MARCH 5, 1937



Consideration of Bill No. 12, An Act to provide for revision of the
accounting set-up of the Canadian National Railway System

MINUTES OF PROCEEDINGS

FRIDAY, March 5, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10.30 a.m., the Chairman, Sir Eugène Fiset, presiding.

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Deachman, Ferland, Fiset (Sir Eugène), Hanson, Heaps, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Ryan, Stewart, Vien, Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport; Dr. W. C. Clark, Deputy Minister of Finance; officials of the Canadian National Railways including Mr. D. C. Grant, Vice-President of Finance, Mr. J. B. MacLaren, Comptroller, and Mr. T. R. Cooper, Assistant Comptroller; Mr. O. A. Matthews of George A. Touche & Co., Auditors of C.N.R. Accounts.

The Committee resumed consideration of Bill No. 12, an Act to provide for revision of the accounting set-up of the Canadian National Railway System.

The Honourable the Minister of Transport made a statement with respect to the historical record of accumulated costs of the National System and the Securities Trust provided for in the Bill, and submitted an amendment to Section 8 and Schedule B and a proposed new clause (No. 24).

In order to specifically meet the situation in respect of the Securities Trust, the Minister also suggested a further clause providing that "the trustees of the securities trust shall present to Parliament annually, concurrently with the annual report of the Canadian National Railways, through the Minister of Transport, a balance sheet, together with the report, setting forth in a summary manner, the transactions of the securities trust during each calendar year."

(Proposed amendments printed in this day's Minutes of Evidence and to be considered by the Committee at its next sitting.)

On motion of Mr. Bothwell,

Resolved,—That the statement provided for in new Section 24 of the Bill be not included in the annual statement of the Canadian National Railways.

On behalf of Mr. Walsh, Hon. Mr. Stewart asked that the following information be made available to the Committee:—

- (a) Condensed balance sheets of the Canadian National Railways and of the Dominion Government, as at December 31, 1935, and March 31, 1936, respectively, showing clearly on each balance sheet all items owing by the Railway to the Government, corresponding items to be in identical amounts (any differences because of differences in dates to be treated as suspense items) duly identified on the respective balance sheets.
- (b) A consolidated balance sheet of the Dominion Government, as at March 31, 1936, including the Canadian National Railways.
- (c) Condensed balance sheets of the Canadian National Railways and of the Dominion Government, as at December 31, 1935, and March 31, 1936, respectively, giving effect to the proposals set out in Bill 12.

- (d) A consolidated balance sheet of the Dominion Government as at March 31, 1936, including the Canadian National Railways, after giving effect to the proposals set out in Bill 12.

Ordered,—That Mr. Walsh's request be submitted to the Deputy Minister of Finance.

The Committee then proceeded to the consideration of the Bill by sections, the following being adopted: 1, 2, 3, 4, 5, 6, 7, 9, 10, 12, 14, 15, 16, 17, 18, 19, 20, 21. Sections 8, 11, 13, 22 and 23 to stand for further consideration at the Committee's next sitting.

The Committee having, with unanimous consent, reverted to section 2, it was agreed to have said section re-drafted for clarification purposes only.

The Committee adjourned until Tuesday, March 9, at 10.30 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

March 5, 1937.

The Standing Committee on Railways and Shipping met in Room 277, at 10.30 o'clock a.m., Sir Eugene Fiset, chairman, presiding.

The CHAIRMAN: Order, gentlemen. We are through with all the witnesses who are going to appear before this committee, and I suppose we will now consider the Bill section by section.

Bill 12, An Act to provide for revision of the accounting set-up of the Canadian National Railway System.

On section 1, short title: Shall the section carry?

Hon. Mr. STEWART: I am just as anxious to make progress as you are.

The CHAIRMAN: All right.

Hon. Mr. STEWART: I understood that the minister had prepared or was preparing an amendment which would be placed before the committee to-day, and it just occurred to me that if we had that amendment and knew the substance of it, and approved of it, it might facilitate the passage of the other sections of the Bill; because, I assume that possibly it relates to more than one section.

The CHAIRMAN: I think there are four amendments to be placed on the record, arising out of the statement which you have in mind.

Hon. Mr. STEWART: Whatever amendments they are, they would probably assist us if we had them before we start in clause by clause on the bill. Then, either at this meeting or a subsequent one there is certain information which we would like to have. My friend Mr. Walsh is absent to-day but he has left a memorandum here of certain information which he desires, and which I am going to ask the Chairman if the committee may have. If we may have the amendment first I think it might facilitate matters.

The CHAIRMAN: Of course, the amendments relate to more than one clause of the bill; one of them deals with clause 8, which changes entirely; and then there are two other amendments which relate to clauses 22, 23 and 24 of the bill. If it is the desire of this committee that the amendment should be read immediately, I have no objections.

Hon. Mr. STEWART: What I had in mind, Mr. Chairman, was that they might possibly have some relationship to the other sections as we go along.

Mr. BEAUBIEN: I do not think that is the usual procedure.

The CHAIRMAN: The usual procedure is to consider the bill clause by clause. I think the only contentious clauses are those mentioned in these amendments.

Mr. BOTHWELL: I think at our last meeting we wound up with the suggestion being made that there was some amendment that had been approved, and I believe the minister at that time handed it over to Mr. Clarke; and that is possibly what Mr. Stewart is referring to this morning. It might clear the air if that particular amendment was read at this time.

The CHAIRMAN: I have no objection if we take clause 8 at this time.

Hon. Mr. HOWE: The Minister of Finance has requested that we make specific provision in the bill for the detailed entries required to be made in public accounts. For this purpose I suggest that the following amendment be made in respect to clause 8 of the bill and in schedule B; proposed amendment attached hereto:

The heading above clause 8 reading:

Adjustment of certain accounts affecting government railways
be deleted and the following substituted therefor:

Adjustment of public accounts
and that clause 8 and schedule B be deleted and the following be substituted therefor:

8. Notwithstanding any provision of the Consolidated Revenue and Audit Act 1931 or any other act, the minister may, in order to adjust certain differences between the public accounts of Canada and the accounts of the National railway system relative to the government railways and the Hudson Bay railway, and in order to give effect to the surrender, exchange or abandonment of securities or claims authorized by this act, make the adjustments in the public accounts of Canada which are set out in schedule "B" of this act.

Now, schedule B. It will be difficult to follow as I read it, but perhaps it would be better to have it printed in the minutes of evidence—I shall read it, anyway.

The CHAIRMAN: The first five items that the minister will read are the same.

Mr. RYAN: You do not need to read them over again, then.

Hon. Mr. HOWE: It is the same down to "Elimination of the present schedule 'railway accounts, non-active' and the substitution of the following accounts." This refers to the public accounts, of course.

Mr. RYAN: Is it substitution or addition?

Hon. Mr. HOWE: Addition.

Mr. BOTHWELL: To which clause?

The CHAIRMAN: It comes after 5 in the schedule.

Mr. BOTHWELL: Right.

HON. MR. HOWE:

SCHEDULE B

ADJUSTMENT OF CERTAIN ACCOUNTS AFFECTING CANADIAN GOVERNMENT RAILWAYS AND HUDSON BAY RAILWAY

- Capital Expenditures by Canadian National Railways from funds provided through loans by the Dominion on wharves now transferred to Public Works... ..\$ 1,006,527 61

ADJUSTMENT IN PUBLIC ACCOUNTS:—

- | | |
|--|--------------|
| <i>Credit.</i> Loans (non-active) to Canadian National Railways... ..\$ | 1,006,527 61 |
| <i>Charge.</i> Investment in Canadian Government Railways | 1,006,527 61 |
| 2. Expenditures by Canadian National Railways from funds provided through loans by the Dominion on account of Hudson Bay Railway, now transferred to Department of Transport... .. | 660,369 96 |

ADJUSTMENT IN PUBLIC ACCOUNTS:—

- | | |
|--|--------------|
| <i>Credit.</i> Loans (non-active) to Canadian National Railways... ..\$ | 660,369 96 |
| <i>Charge.</i> Investment in Hudson Bay Railway... .. | 457,526 76 |
| Consolidated Fund of Canada... .. | 202,843 20 |
| 3. Adjustment to Investment Account of Canadian Government Railways by the Canadian National Railways during period of entrustment... .. | |
| <i>Net Reduction</i> | 1,596,235 99 |

ADJUSTMENT IN PUBLIC ACCOUNTS:—

<i>Credit.</i> Investment in Canadian Government Railways..	\$ 1,596,235 99
<i>Charge.</i> C.G.R. Working Capital (active assets) ..	1,169,636 76
Consolidated Fund of Canada ..	426,599 23

4. Adjustment to Canadian Government Railways' Stores and open Accounts by the Canadian National Railways during period of entrustment—

Net Reduction 146,577 82

ADJUSTMENT IN PUBLIC ACCOUNTS:—

<i>Credit.</i> C.G.R. Working Capital (active assets) ..	\$ 146,577 82
<i>Charge.</i> Consolidated Fund of Canada ..	146,577 82

5. Adjustment to Schedule of Miscellaneous Current Assets of Public Accounts as follows:—

PRESENT SCHEDULE INCLUDES:—

Canadian Government Railways, Open Accounts ..	\$ 6,042,932 52
Canadian Government Railways, Stores Accounts ..	9,757,420 40
St. John and Quebec Railway—Stores Accounts ..	2,590 94
	<hr/>
	\$ 15,802,943 86
<i>Less</i> —St. John and Quebec Railway, Open Accounts ..	54,022 26
	<hr/>
	\$ 15,748,921 60

TO BE REVISED AS FOLLOWS:—

Canadian Government Railways Working Capital ..	\$ 15,748,921 60
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ELIMINATION OF THE PRESENT SCHEDULE "RAILWAY ACCOUNTS, NON-ACTIVE," AND THE
SUBSTITUTION OF THE FOLLOWING ACCOUNTS

Equity value of loans to Canadian National Railways, amount \$643,860,558.26, transferred to Securities Trust in exchange for 5,000,000 shares of no-par value capital stock ..	\$282,616,208 35
Equity value of 1,000,000 shares of Canadian National Railway Company no-par value stock received in exchange for Canadian Northern Railway Company stock ..	18,000,000 00
	<hr/>
Total ..	\$300,616,208 35

ADJUSTMENT IN PUBLIC ACCOUNTS:—

<i>Credit.</i> Railway Accounts (non-active) ..	\$653,860,558 26
<i>Charge.</i> Securities Trust Stock Account ..	282,616,208 35
Canadian National Stock Account ..	18,000,000 00
Consolidated Fund of Canada ..	353,244,349 91

(NOTE:—The figures used are taken from the 1935 Canadian National Accounts and are subject to revision at December 31, 1936.)

REDUCTION OF SCHEDULE "RAILWAY ACCOUNTS" (OLD) AS FOLLOWS

Grand Trunk Railway Debenture Account ..	\$ 15,142,633 34
Grand Trunk Railway Interest Account ..	10,457,458 01
Grand Trunk Railway Special Interest Account ..	7,302 18
	<hr/>
Total Reduction ..	\$ 25,607,393 53

ADJUSTMENT IN PUBLIC ACCOUNTS:—

<i>Credit.</i> Railway Accounts (old) ..	\$ 25,607,393 53
<i>Charge.</i> Consolidated Fund of Canada ..	25,607,393 53

RECAPITULATION OF CHANGES IN PUBLIC ACCOUNTS:—

<i>Credit.</i> Railway Accounts (old) ..	\$ 25,607,393 53
Railway Accounts (loans, non-active) ..	655,527,455 83
Investment in Canadian Government Railways ..	589,708 38
C.G.R. Stores and Open Accounts ..	15,748,921 60
	<hr/>
	\$697,473,479 34
<i>Debit.</i> Securities Trust Stock Account ..	\$282,616,208 35
Canadian National Stock Account ..	18,000,000 00
Investment in Hudson Bay Railway ..	457,526 76
Canadian Government Railways Working Capital ..	16,771,980 54
Consolidated Fund of Canada ..	379,627,763 69
	<hr/>
	\$697,473,479 34

Mr. BEAUBIEN: Is this new?

Hon. Mr. HOWE: Yes, all new.

Mr. BEAUBIEN: At this point I should like to say that after these amendments are read we shall be in a worse position than we were before unless we have them before us.

The CHAIRMAN: It is with a view to placing them before the committee that the minister has read them.

Mr. BEAUBIEN: If they are put in the records and discussed at the next meeting it will be perfectly all right as far as the members are concerned.

Hon. Mr. STEWART: After the minister has read them we shall have a general grasp of the meaning of them. I quite agree with what the hon. member has said, that in order to study them we shall have to have them printed, but in this way we shall get the general idea.

Hon. Mr. HOWE: This does not change the bill in any way as we see it; but it does set out specifically what changes will be made in the public accounts of Canada.

Mr. RYAN: Do I understand that this is set out in the public accounts?

Hon. Mr. HOWE: It is an adjustment of public accounts to take account of this legislation. The legislation itself authorized certain adjustments in the railway accounts and public accounts.

Mr. BEAUBIEN: Do I understand that this bill when it is passed in the form in which you wish it amended will give instructions to the Department of Finance to adjust public accounts according to the amendment. Is that the idea?

Hon. Mr. HOWE: Correct.

Mr. BEAUBIEN: Have we power?

Hon. Mr. HOWE: Yes, parliament has that power. We are doing this, as a matter of fact, at the request of the Department of Finance.

Mr. RYAN: The C.N.R. fiscal year ends on December 31?

Hon. Mr. HOWE: That is right; they work on a calendar year.

The CHAIRMAN: Shall this amendment be printed in the evidence for the use of the committee at the next meeting?

Hon. Mr. STEWART: That is the only way, Mr. Chairman.

Mr. BEAUBIEN: I think it should be indicated in the proceedings to that effect.

The CHAIRMAN: Oh, yes. The reporter is taking a note.

Hon. Mr. HOWE: We now come to the historical record of accumulated costs. In view of the apparent misunderstandings which have been expressed, both in this committee and in the public press concerning certain features of the C.N.R. capital adjustment measure, I think it most necessary that I lay stress on the fact that a complete historical record of accumulated costs of the National System (and other railways in Canada) to the Dominion Treasury since Confederation is as much a definite part of the plan as the proposed balance sheet adjustments themselves. In my first statement to the committee on the 18th February last, I endeavoured to make this fact clear, as shown at the bottom of page 10, and in the second paragraph of page 12 of the Minutes of Proceedings and Evidence of that date. However, in order to further clarify the situation and to remove any possible misunderstandings in the matter I would suggest that an additional provision be made to the bill to specifically cover this whole matter as follows:—

That the following new clause be inserted as clause 24.

Appendix to Public Accounts showing total assistance to all railways

24. The Minister shall include annually as an appendix to the Public Accounts of Canada a statement showing the total assistance, whether

by way of cash outlay, land grant, loan, advance, guarantee or otherwise, given by the Dominion to all railways. Such statement shall also show the manner in which such assistance has been dealt with in the Public Accounts of Canada.

Hon. Mr. STEWART: That, Mr. Chairman, I assume means all railways that are incorporated in the Canadian National system.

Hon. Mr. HOWE: No, it means all railways that have received Dominion government assistance.

Hon. Mr. STEWART: Is that to be an appendix to the statement of the Canadian National Railways?

Hon. Mr. HOWE: An appendix to the public accounts.

Hon. Mr. STEWART: Of Canada?

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: Well, with respect—

Hon. Mr. HOWE: We have considered very carefully the idea of further befogging the balance sheet of the Canadian National Railways, and I do not think it is good business to do it.

Hon. Mr. STEWART: It is a point whether there should be included in the Canadian National Railways annual statement a schedule showing just what the public accounts show with respect to that system. I think it is desirable.

Hon. Mr. HOWE: It is for the committee to decide.

Mr. RYAN: It is only going to show the amounts of money advanced; that is all?

Hon. Mr. HOWE: That is correct; it shows all advances by the Dominion Government for railway purposes.

Mr. BOTHWELL: The annual statement of the National Railways will show any moneys advanced in that particular year, but so far as these accumulated deficits that are taken care of in this bill are concerned, they will be taken care of in the public accounts.

Hon. Mr. HOWE: That is the proposal.

Mr. BOTHWELL: It does seem to me, Mr. Chairman, that the amendment that the minister has suggested this morning will clarify the whole matter to every member of the committee. I never could see any object in having this adjustment carried into the annual statement of the Canadian National Railways from year to year. Just as the minister says, it is befogging the whole statement.

Mr. BEAUBIEN: Is it intended to have the grants of land and other grants included in the statement of public accounts?

Hon. Mr. HOWE: Every form of assistance.

Mr. BEAUBIEN: Every form of assistance?

Hon. Mr. HOWE: Yes. We think the place for that is an appendix to the public accounts.

Mr. RYAN: Surely, there must be some way of setting out just how these public railways operated so far as returns to the government are concerned? I mean by that, some of these roads have carried themselves. Simply to show the amount of money advanced to each railroad is hardly a fair picture.

Hon. Mr. HOWE: What is intended is to show the cost to the government. That is what everyone has been asking for, so far as I know, the cost of Canada's railways to the government. That is what I understand the witness from Montreal was asking, and that is what we are giving.

Mr. RYAN: If it showed a true picture of the deficits that have been paid since Confederation it will be all right.

Mr. BEAUBIEN: It will show that the Canadian government in giving aid to the railways have disbursed so much money. That will show in the public accounts whether in the form of deficits or not.

Hon. Mr. HOWE: It will show how the money was disbursed.

The CHAIRMAN: It seems to me the question to decide now is whether these statements should appear in the public accounts and whether they should be included in the annual statement of the Canadian National Railways.

Mr. BEAUBIEN: We have a bill before us here to eliminate duplication. Surely we are not going to continue the duplication when we have a bill before us to eliminate duplication. You might just as well throw the bill out.

Mr. BOTHWELL: In order to bring the matter to a head I would move that the statement that we have been discussing be included in the public accounts, and not in the annual statement of the Canadian National Railways.

Mr. BEAUBIEN: I will second the motion.

Mr. RYAN: Would it not be well to defer that motion until such time as we have the printed matter before us?

Mr. BEAUBIEN: There is just this to it; if we pass this motion now, we can go on with the bill, and the matter as to whether we are going to have it in both statements is settled in one way or another if Mr. Bothwell's motion passes.

Hon. Mr. STEWART: Mr. Chairman, I think you have accurately stated the kernel of the proposition that now must receive the consideration of the committee, and that is whether the statement that has been outlined is to appear in the public accounts and also to appear in the annual report as a schedule or annex of the Canadian National Railways. It appears to me that, to meet the statement that the minister made in the house when the bill was introduced, such annex or statement should appear each year in the statement of the Canadian National Railways. I think it is very desirable, as the minister stated, that at all times there should be accessible to those interested, to those who are charged with studying this statement, a complete statement in every way. It seems to me that we will be really giving something less than we are giving now unless we do include in the annual statement of the Canadian National Railways an annex or schedule such as that now suggested to the public accounts.

The CHAIRMAN: I would like to direct your attention to the fact that this amendment does not cover the Canadian National Railways only. It covers all railways; and, therefore, the place where it should appear—in my opinion, at least—is in the public accounts.

Hon. Mr. STEWART: That is all right in the public accounts—all railways—if they wish. I am not suggesting that all railways should appear in the Canadian National Railways statement. But I do submit strongly that that portion of the statement which relates to the Canadian National Railways should appear in the Canadian National Railways statement.

Hon. Mr. HOWE: Of course, that statement is not there to-day. If it were the statement of the railways would be much larger than that.

Hon. Mr. STEWART: It is there in some form.

Hon. Mr. HOWE: No. The statement to-day has not included the deficits since 1932; and there are, also, certain other eliminations. There are probably eliminations there of about \$280,000,000 in the present balance sheet.

Hon. Mr. STEWART: Yes; which, I think, ought to appear.

Mr. YOUNG: It seems to me that the minister has found a solution which will reasonably meet the desire of all those who come before us, in proposing to give in the public accounts the picture such as desired by those who came here saying

that this should not be buried for all time, but it should be available in some record. It will be available in the public accounts of Canada, and surely that is a public record. I think if we pass this motion, we will get along with the bill and save a lot of time.

Hon. Mr. STEWART: I am going to support the suggestion made by the member of the committee just next to me, Mr. Ryan, that this be left over until we have had time to study the amendments proposed by the minister when they are published in the reports of this committee. It does seem to me that we are touching something of importance and something that is really vital, as raised in the debates upon this question in the house and elsewhere, namely, that at all times the statement of the Canadian National Railways, the annual report, should show everything in the way of indebtedness to the government—advances and any other items that should appear in that connection. It seems to me that we are doing a little less than that if we adopt the suggestion outlined here to-day. It may be that after a study of the amendment I may conclude that that is not the case. But it does seem to me that we might well leave it over until next meeting, and not dispose of it quite so summarily as we are doing.

Hon. Mr. HOWE: My thought on the matter is that the whole purpose of this bill is to set our house in order for the public; that is, for people who are investing in Dominion Government securities. After giving the matter a good deal of thought, I do not see how we can present the thing in the annual report of the railways in a way that would make it clear to the public that this has all been taken care of in one way or another and is not a liability of the railways. That is my thought in the thing, and I see some difficulty in doing that.

Hon. Mr. STEWART: Is it not a liability of the railways?

Hon. Mr. HOWE: No.

Hon. Mr. STEWART: Is it not?

Hon. Mr. HOWE: No.

Hon. Mr. STEWART: At present it certainly is.

Hon. Mr. HOWE: Some is and some is not.

Hon. Mr. STEWART: I do not know what it will be after you get through with it.

Mr. BEAUBIEN: Some has been wiped out.

Hon. Mr. HOWE: Some has been wiped out by statute in 1932 and some left.

Hon. Mr. STEWART: I do not see how it is written out by statute at all. It is just taken care of out of the consolidated revenue fund. That does not alter the fact that morally and really it is an indebtedness of the Canadian National Railways to the public.

Hon. Mr. HOWE: It is not so shown in any of the books.

Hon. Mr. STEWART: That is another matter.

Mr. DEACHMAN: Mr. Chairman, this is not a partisan committee. This is a committee of the House of Commons, and the object of the committee must be not only to render justice to the Canadian National Railways but to render justice to every railway. I submit, therefore, that when we have included this in the public accounts we have placed there a statement alike of all railways so that it may be referred to at any time. When we have made the changes which we have suggested, we have acted precisely as the leaders in business do at any time on a reorganization. But we have gone further and shown, as far as the stockholders are concerned, the past record. But to put into the balance sheet of the annual statement another record, telling them that in fact although this has been cleaned up and adjusted, there is really something else back of it, and that there is another statement that they ought to consider, is surely going beyond

reason and beyond anything that any private company might do. I do not think that even if the most distinguished opponent of this move—I refer to Mr. Beatty—were to come here and give evidence, he could suggest that we do anything more than accept what has been the accepted custom in private business for generations.

Mr. RYAN: Mr. Chairman, I have no objection to the principle of setting these out exclusively in the public accounts of Canada. But what worries me a little bit is how we are going to give a complete picture when we do set that out in the public accounts of Canada. We at one time had a Department of Railways and Canals, I know. But I do not know—I was not here—what happened to the canals, the cost of canals and so on, or where that was relegated. Perhaps Mr. Roberts could tell us something about that.

Hon. Mr. HOWE: Yes. In this account now appearing in the accounts of the Department of Railways and Canals for the last year, it would continue to appear as it is in the accounts of the Department of Transport—a complete record of all expenditures on railways.

Mr. RYAN: Also of canals? I am speaking about canals.

Hon. Mr. HOWE: Everything.

Mr. BEAUBIEN: From the inception?

Mr. SMART: Right from the start.

Hon. Mr. HOWE: Right from the start when the first work was done. I might say that it has been suggested that it would be possible to write another amendment into this, an amendment to the effect that we make it compulsory for all railways to include all government assistance in their annual report. That would be an alternative.

Mr. RYAN: This is only the position I take. Why have an amendment and have another amendment on top of that? I have no objection to having it exclusively in the public accounts. But would there be any harm done? I have given the matter a lot of thought as to what should be put in the public accounts as showing a complete picture.

Mr. VIEN: At first sight, Mr. Chairman, I think the public would be satisfied with the last suggestion. I am talking exclusively with respect to the public interest. I resent a little the insinuation that either Sir Edward Beatty or any member of the committee should, when they are trying to find their basic facts; to use my hon. friend's own parlance, that there should be any particular interest other than serving the public interest. I would at first sight think that the last suggestion would be an excellent one, that as an appendix to all railway companies' financial statements there be a supplement showing the true picture. That would at first sight appear to be all right. The only difficulty with respect to the amendment presented would be that that could hardly come as part of the bill now referred to the committee. That should be an amendment to the Railway Act, for instance, or something of that kind. Of course, we could always do it by amendment to this bill, because parliament can do what it seems advisable. But it might not be logical to have it as an amendment to this bill.

The CHAIRMAN: I would like to direct your attention, gentlemen, to the fact that this question is not before us at the present time. It has been mentioned casually by the minister. What is before us at the present time is: Shall the statement in the amendment proposed by the minister be included only in the public accounts or also in the accounts of the Canadian National Railways? That is what we have to decide.

Mr. VIEN: I am sorry to have been a bit late. I would like to know if it has been covered. I shall read it—if there is any serious reason why it should not appear as an appendix to the annual financial statement. If there is any objection, I am quite willing not to insist on it. If there is any reason why these grants of money or these loans should not, as an appendix, be added to the financial statement, I am quite willing not to insist on it.

Mr. BEAUBIEN: There is a motion before us to that effect.

Mr. VIEN: Well, I do not want to delay the committee.

Hon. Mr. HOWE: I think the answer to that is that it is difficult to set it out in a way that will appeal to anyone as a reason. I mean, you can put an appendix in there, and business men reading the thing such as we will say British investors or American investors, or anyone you like who buys this type of security, will wonder why it is there as an additional liability. We want to get away from the idea that there is any undisclosed liability of the railway. That is my thought in the thing. I may be wrong.

Mr. VIEN: I think that may be reasonable.

Some Hon. MEMBERS: Question.

The CHAIRMAN: Gentlemen, the motion before us is: Shall this amendment appear as proposed here; shall it be only in the public accounts or also in the Canadian National Railways balance sheet?

Mr. VIEN: Would you kindly read the amendment?

The CHAIRMAN: I have not got it in written form.

Hon. Mr. STEWART: With a view to getting along, is there any serious objection to allowing this to stand over until the next meeting of the committee, and having it appear in our minutes so that we may study it and then speak to it more intelligently? It may be accepted.

The CHAIRMAN: Well, gentlemen, it is for you to decide. Do you want the motion to be proposed?

Some Hon. MEMBERS: Question.

The CHAIRMAN: I will have it in written form in a moment.

Mr. BEAUBIEN: I think if we get an opinion of the committee, then that phase of it will be settled.

The CHAIRMAN: Without a vote?

Mr. BEAUBIEN: No.

Mr. MCKINNON: On the motion.

Mr. BEAUBIEN: I mean, by this motion we will get the opinion of the committee. That will settle the question. Then if there are any amendments in reference to what is going to be put in the public accounts, we can deal with that afterwards.

Mr. BOTHWELL: That would be schedule B, would it not?

The CHAIRMAN: No. It is paragraph 24 of the bill.

Hon. Mr. HOWE: Now paragraph 24.

Mr. BOTHWELL: And schedule B?

The CHAIRMAN: No, schedule B is another amendment that will be considered when clause 8 is under discussion.

Mr. BOTHWELL: Section 24 of the bill; you mean the statement provided for in section 24 of the bill be not included in the Canadian National Railways annual statement?

Hon. Mr. HOWE: That is right.

The CHAIRMAN: That is it exactly.

Mr. BEAUBIEN: Mr. Chairman, in reference to the statement of the amendment which the minister has moved, in reading a speech by Sir Edward Beatty on April 9, 1935, I find this is what he said:—

As a taxpayer, and as an officer of a competing railway, I care for one thing and one thing only—that the people of this country shall not be fooled into continuance of the unwise extravagance which has produced the situation which now confronts us. As has recently been said, you

may write the capital of the National Railways down to one dollar, provided that every statement affecting the finances of the system carried in bold type the announcement that nothing should make us forget that Canadian railway policy has already added over three billion dollars to the financial obligations of the nation.

If we put it into the public accounts everybody concerned will see exactly what the railway undertakings of the Canadian people have cost the Canadian people. We cannot have it in both places.

The CHAIRMAN: As a matter of fact, I think everybody is of the opinion that we could get a truer picture of the situation in the public accounts than we can possibly get in the annual statement of the Canadian National Railways.

Mr. BOTHWELL: We will certainly get a better statement than we do now, because we can find only a part of it in the Canadian National annual statement and a part of it in the public accounts.

The CHAIRMAN: Moved by Mr. Bothwell, seconded by Mr. Beaubien, that the statement we have been discussing be included in the public accounts and not in the annual statement of the Canadian National Railways.

Mr. RYAN: Would it not be well to make that section 23 instead of section 24?

The CHAIRMAN: I think there is another section 23 proposed. The minister seems to have gone backward rather than forward. Shall the motion carry?

(Motion agreed to.)

Hon. Mr. HOWE: It was contended in the committee meeting of the 25th February that the securities trust was to be used for some improper purpose and as some sort of subterfuge for hiding the complete scope of the proposed elimination of advances and accrued interest. A reference to my statement made to this committee on the 18th February will show that on page 2 of the minutes of proceedings and evidence I gave a condensed summary of the proposed consolidated balance sheet revision. In this summary I think I made it abundantly clear what the proposed elimination is in the following terms:—

Elimination of loans applied for deficits by concurrent reduction of deficit account.. . . .	\$361,244,349 91
Elimination of accrued interest on loans by concurrent reduction of deficit account.. . . .	495,030,137 29
	<hr/> \$856,274,487 20

Then on page 6 of the minutes of proceedings and evidence under the heading "Elimination of Capitalized Deficits" and continuing up to page 11 my statement dealt in considerable detail with the principles involved and the authorities and precedents supporting the proposed balance sheet write-off.

Up to this point the securities trust is not a factor. It only becomes a factor when the elimination of these duplicated liabilities and deficits is sanctioned in principle by parliament. When the elimination of debt duplication is sanctioned then the securities trust, as dealt with in my statement on page 12 of the minutes of proceedings and evidence of February 18th, is to be created "solely for the purpose of taking over and perpetuating such priority claims as may be deemed to exist and the underlying collateral against the original debtor corporations in the same way and to the same extent that they are presently held by the Dominion subject only to the provision for release with the approval of the Governor in Council."

There is another important side to this matter. If the capital adjustment plan had provided for the elimination of claims for loans and accrued interest without concurrently making adequate provision for the preservation of the priority rights of the Dominion in respect of unguaranteed securities and subsidiary company capital stocks held by the public, there would have been an

indefensible weakness in any such a plan. The elimination of the debt duplication other than by way of the securities trust could only have been accomplished by the direct cancellation by the Dominion of the relative claims against the original debtor corporations. Such outright cancellation would have indirectly altered the status of the existing priorities to the disadvantage of the Dominion. This fact was given the most careful consideration before deciding upon the proposal for the establishment of a securities trust to protect the Dominion against any future contingencies in this respect.

I think the committee will agree that in view of these facts any statement which attributes improper motives in the creation of this securities trust is entirely without foundation. However, in order to fully clarify the situation and to meet any objection to the placing of the securities trust under the authority of the Governor in Council or to meet any other point relative thereto, then by all means I would suggest that the bill specifically provide that the balance sheet and annual report of the securities trust be submitted to parliament annually as a separate document. With this thought in mind I favour an additional provision being made in the bill to specifically meet the situation in respect of the securities trust as follows: Under that clause, the trustees of the securities trust shall present to parliament annually through the Minister of Transport a balance sheet together with the report setting forth in a summary manner the transactions of the securities trust during each calendar year.

Mr. BEAUBIEN: "Trustees" there means the Governor in Council.

Hon. Mr. HOWE: It means the five men set up; Deputy Minister of Finance, Deputy Minister of Transport, Deputy Minister of Justice—

Mr. BEAUBIEN: You are going to set up trustees to take care of this securities trust.

Hon. Mr. HOWE: Yes. The other two trustees are the president and treasurer of the Canadian National Railways. It is a trust wholly owned by the government, and this provides that statements of any transactions made in that trust shall be reported to parliament in a separate report.

Mr. VIEN: These transactions will be limited, will they, to what we are now transferring to them. Or is there any operation from year to year with respect to deficits or other things that might further be transferred to them, or shall they be entrusted only with the management of such securities which are now being embodied in the trust?

Hon. Mr. HOWE: These securities could be released by council as against some claim. There might be transactions of the securities account but they will arise out of old transactions.

Mr. VIEN: Therefore, they will be limited to managing such securities as we are now entrusting to them?

Hon. Mr. HOWE: Yes; in the interest of the government and the railway.

Mr. VIEN: Exactly. But in future the management of the railway will not have power to shift to them any other securities or any other deficits or any other financial statements except with regard to the management of such securities as we are now passing on to them?

Hon. Mr. HOWE: That is my understanding, yes.

The CHAIRMAN: Gentlemen, I think we will have to come back to all these matters as we are considering the bill clause by clause. I think we should deal with the bill as it stands.

Hon. Mr. STEWART: In connection with the minister's statement, I would assume that that would be presented within the first few days—fifteen days or thirty days of the opening of parliament and would be available and could be considered in connection with the report of the Canadian National Railways.

Hon. Mr. HOWE: We could have it presented concurrently with the annual report of the Canadian National Railways.

Hon. Mr. STEWART: It seems to me it ought to be available to this committee for consideration at the same time that this committee is considering the annual report of the Canadian National Railways, or it might be an annex to the report of the Canadian National Railways.

Hon. Mr. HOWE: It would be an annex to the report. This provides for a special report to parliament with a statement.

Hon. Mr. STEWART: Exactly.

Mr. YOUNG: Could that report be referred to any committee?

Hon. Mr. HOWE: It will be referred to this committee. It will be presented to parliament annually, concurrently—

Mr. VIEN: —concurrently with the annual report of the Canadian National system.

Hon. Mr. STEWART: That is the idea.

The CHAIRMAN: This has limited to some extent the object of the amendment.

Hon. Mr. HOWE: No. It puts a time limit.

The CHAIRMAN: You are sending it only to one committee; it may be desirable to send it to another committee, because the Finance Department is concerned.

Mr. VIEN: The amendment as proposed by Mr. Stewart does not determine to what committee parliament will refer it; it simply is limited to determining that the minister will file the report of the trustees at the same time as he files the report of the Canadian National Railways. Now, parliament may refer it to any committee.

Mr. YOUNG: I take it that this will be reported to parliament in the ordinary way and a motion may be made in parliament to refer it.

Mr. VIEN: Exactly. We are not determining the manner; we are determining the time.

Hon. Mr. HOWE: The time. That is all: the trustees of the securities trust shall present to parliament annually concurrently with the annual report of the Canadian National Railways through the Minister of Transport a balance sheet together with the report setting forth in a summary manner the transactions of the securities trust during each calendar year.

Mr. YOUNG: Mr. Chairman, that seems to me to imply that this securities trust shall present the report of the Canadian National Railways, and I do not think that is intended.

Hon. Mr. HOWE: At the same time, yes.

Mr. YOUNG: By the way you have it worded, it seems to me to indicate that they themselves shall do it.

The CHAIRMAN: It says "through the Minister of Transport."

Mr. YOUNG: All we are purporting to do here is to have this report come to parliament, and then parliament itself determines that it shall go before whatever committee it wishes.

Mr. VIEN: We agree.

Hon. Mr. HOWE: It is customary to have a time limit.

Mr. BOTHWELL: I think the amendment infers that—that it shall be presented to parliament through the Minister of Transport.

The CHAIRMAN: It is the same thing with the auditor's report. The auditor's report does not specify a time limit, but it is referred to us at the same time as the annual report of the Canadian National Railways. The wording is very broad as far as the reference of the auditor's report to parliament is concerned.

Mr. VIEN: I think we are at one on the principle. When you say referred—

The CHAIRMAN: We will consider that later on when we come to that clause.

Hon. Mr. STEWART: Might I present this statement on behalf of a member of the committee, Mr. Walsh, who is not present. I have three or four copies of it. It is something that would receive the attention of the officials of the railway.

The CHAIRMAN: You do not want that to be included in the evidence, do you? We will simply hand it to the clerk and secure the information from the officials of the Canadian National Railways.

Hon. Mr. STEWART: This is a request. I would like to put it on the record:—

(a) Condensed balance sheets of the Canadian National Railways and of the Dominion government, as at December 31, 1935, and March 31, 1936, respectively, showing clearly on each balance sheet all items owing by the railway to the government, corresponding items to be in identical amounts (any differences because of differences in dates to be treated as suspense items) duly identified on the respective balance sheets.

(b) A consolidated balance sheet of the Dominion government, as at March 31, 1936, including the Canadian National Railways.

(c) Condensed balance sheets of the Canadian National Railways and of the Dominion government, as at December 31, 1935, and March 31, 1936, respectively, giving effect to the proposals set out in bill 12.

(d) A consolidated balance sheet of the Dominion government as at March 31, 1936, including the Canadian National Railways, after giving effect to the proposals set out in bill 12.

I shall not ask that this be disposed of now. It can be tabled, but I wanted to get it in the record.

The CHAIRMAN: We will go further. We will hand this over to Dr. Clark, Deputy Minister of Finance, for any statement that may be needed.

Hon. Mr. VIEN: And we shall have these questions on the record.

The CHAIRMAN: We shall do better than that, we will undertake to have the answers to them at our next meeting.

Hon. Mr. VIEN: We shall know what it is all about when we read the record?

Hon. Mr. HOWE: That is all in the report of the Department of Railways and Canals.

Hon. Mr. STEWART: I assume that it is, I do not know.

Hon. Mr. HOWE: The reconciliation—everything else, is there.

Hon. Mr. STEWART: Mr. Walsh was very sorry that he could not be here this morning.

The CHAIRMAN: We are on clause 2; shall clause 2 carry? I am just going to read the marginal notes. Clause, interpretation: Definitions; "Government Railways"; R.S., c. 172; "Minister"; "Indebtedness to His Majesty"; "National Railways"; R.S., 1932-33, c. 33; "National Railway System"; R.S., 1932-33, c. 33; "proprietor's equity."

Hon. Mr. STEWART: Mr. Chairman, proprietor's equity means?

The CHAIRMAN: I am going to read that whole clause:—

(f) "Proprietor's equity" means

(i) the initial stated value of the capital stocks of the Canadian National Railway Company and the Securities Trust as determined pursuant to sections five and fifteen of this Act as of January first, nineteen hundred and thirty-seven, plus any subsequent surplus

earnings of the National Railway System not paid over to His Majesty, less subsequent capital losses and other charges of the National Railway System in respect of which His Majesty has not made any contribution, and (11) the capital investment of His Majesty in the Government Railways.

I would like to call the attention of the committee to the fact that clause 11 further deals with proprietor's equity, and it is defined in schedules 4, 5 and 6 of the appendices. So we might discuss proprietor's equity when we come to clause 11 Mr. Stewart, don't you think?

Hon. Mr. STEWART: Proprietor's equity seems to be a new expression. Is it a suggestion of the auditor? We would like to get it, it is a new phrase.

Hon. Mr. HOWE: Who can tell where these bright ideas originate?

Hon. Mr. STEWART: I thought possibly the idea came from the minister.

Hon. Mr. HOWE: I would not like to take the credit myself, or give it to anyone else. It is one of these evolutions.

Hon. Mr. VIEN: What strikes me at first sight in that definition is that in the proprietor's equity—and that is related to the question I was putting earlier—in the proprietor's equity will be at least reflected the surplus or deficit of the system. I may be wrong.

Hon. Mr. HOWE: No. The proprietor's equity simply gives the value of the securities in the securities trust.

Hon. Mr. VIEN: Financially stated the value of the capital stocks of the proprietor's equity means the value of the capital stocks that we are now transferring—to-day, as of January 1, 1937—plus any such subsequent surplus earnings less any subsequent capital losses and other charges of the system in respect of which His Majesty has not made any contribution, and the capital investment of His Majesty in government railways. I have no objection to that at all, I think it is a proper thing; providing this would not relieve the Canadian National Railways from year to year from showing in their balance sheet and in their profit and loss statement the continued results of their operations either by accumulated surpluses or accumulated deficits or the condensed results of both.

Hon. Mr. HOWE: The officials will correct me if I am wrong, but I think that clause simply is made flexible enough—you see, we are working here on the accounts of 1935 because we have not the accounts of 1936; well, this act provides all the way through that all the figures used can be adjusted to the accounts of 1936; and I think the flexibility of the thing is simply to provide for that adjustment. I think that once we have an adjustment of these books on the basis of 1936 accounts there would be no additions or deductions, as stated in the paragraph.

Hon. Mr. VIEN: I would like to have Colonel Clarke tell me if these surpluses and deficits, or losses, or charges, or all such deficits and charges, occur until the 1st of January, 1937, only; or if they are to occur in future.

Hon. Mr. HOWE: Could you answer that Mr. McLaren?

Mr. McLAREN: To occur in future, at the end of 1936? Well, that is to be disposed of by the provisions of the bill.

Hon. Mr. VIEN: Therefore, in future any profit or any loss sustained by the railway will be added to or deducted from this capital trust.

Mr. McLAREN: Any contribution not made by the government.

Hon. Mr. VIEN: I have no objection to that, I think it is a proper thing that it should be because we are now defining the proprietor's equity; and, of course, that proprietor's equity will consist of what is there as of the 1st of January, and would be added to or deducted from as profits or losses are occurring from year to year.

Mr. McLAREN: Not paid for by the government.

Hon. Mr. VIEN: Not paid for by the government, as a result of the system's operation.

Mr. McLAREN: Yes.

Hon. Mr. VIEN: That of course is quite all right so far as a definition is concerned, and so far as the construction of the proprietor's equity is concerned; provided it does not relieve the railway company from carrying in its profit and loss statement, and from reflecting in its balance sheet from year to year the results of its operations from this day on.

Mr. McLAREN: Under this bill there will not be a profit and loss account. The profit and loss account will be reflected in the proprietor's equity. That will be either increased or reduced as the case may be.

Hon. Mr. VIEN: How are you going to show the net results of your annual operations from year to year?

Mr. McLAREN: The profit and loss will show just as it is now. The balance not contributed by the government is being transferred to the government equity account.

Hon. Mr. VIEN: That is all right as a definition. We are now on the definition, and I have no great objection; but it may be well to foresee what possible objections I have to this. It seems to me that it is quite all right to eliminate or write off from the Canadian financial statement any accumulated deficits or any losses by the government which are non-active assets and which are being written off so to speak and transferred to that equity trust fund.

Mr. McLAREN: May I put it this way so it will make it simple; supposing at the end of 1937 we had a deficit of say \$50,000,000, and \$40,000,000 of that was paid for by the government, that leaves \$10,000,000 say representing a capital loss; that would be transferred to the government's equity account and would reduce the government's equity by \$10,000,000. Is that clear?

Hon. Mr. VIEN: That is clear; but there is something that is not clear, and what is not clear in my mind is this: that we recapitalize the company, we write off this equity and we recapitalize the company; you have a new financial structure; you carry on with your operations at the end of this year let us say making a loss of \$20,000,000, it seems to me that your annual financial statement should have a statement of this that will be carried along with the other results of your operations so that next year if you have a profit of \$30,000,000 then you should have in your accumulated profit and loss a statement to show the net results of your operations from this recapitalization.

Mr. McLAREN: Well, Mr. Vien, the profit and loss account you speak of will be substituted by the proprietor's equity account, that will be increased or reduced as the results are known.

Hon. Mr. VIEN: To speak in plain language and in ordinary parlance, it seems to me, speaking for the ordinary average taxpayer of this country, and speaking for the 28,700 electors of my riding, that when they read the financial statement of the Canadian National Railway system, or the Canadian Pacific, or the Canadian government, they want to try to understand what it is all about. If you transfer your profits or losses from year to year to this proprietor's equity which will be carried in a separate set of accounts you do not give the Canadian people—and I speak subject to correction—you do not give to the Canadian people a true picture of the results of the operation of your system.

Hon. Mr. HOWE: You do that way.

Mr. McLAREN: Just a moment please.

Hon. Mr. HOWE: All right.

Mr. McLAREN: I do not think that was a correct statement.

Hon. Mr. VIEN: I would be glad to be corrected.

Mr. McLAREN: I will try. Take our profit and loss account on page 18 of the annual report for the year ending 1935.

Hon. Mr. VIEN: Yes.

Mr. McLAREN: It will be shown in the same manner as it is now shown, and where you see at the bottom the change during the year in the profit and loss account—now, that is after the government has paid its cash proportion of contribution—that would be transferred by the new bill to the proprietor's equity instead of profit and loss. I myself can see no difference between the name profit and loss account and proprietor's equity. They are the same thing.

Hon. Mr. VIEN: Except that this statement disappears from your annual financial statement?

Mr. McLAREN: No, begging your pardon, on the face of our balance sheet you have there in the profit and loss account under the new bill— —

Hon. Mr. VIEN: I am sorry, would you show me on what page of the report I will see that.

Mr. McLAREN: That appears on page 17. The profit and loss account is shown there. Now it will be substituted by the proprietor's equity account showing the change just the same as at present.

The CHAIRMAN: It is a change in name only.

Mr. McLAREN: That is all.

Mr. RYAN: In other words, the amounts would appear there just as well.

The CHAIRMAN: Absolutely.

Hon. Mr. VIEN: The statement on page 18 of the auditor's report disappears from your future report. You will have in your balance sheet figures showing your profit or loss for the year and this will be transferred to the proprietor's equity account; but the profit and loss statement which you now carry on page 18 will disappear from your annual statement. Is that correct?

Mr. McLAREN: That can be overcome by just doing what we do now. We show there the change during the year in the profit and loss account, and underneath that is the balance on January 1st of so much; then the total, and the balance. You can carry that out just the same and the total always agrees with what appears in the account on page 17, in just the same manner as when you had a profit and loss account.

Hon. Mr. VIEN: We will go into that when we discuss the bill.

Hon. Mr. STEWART: With regard to these deficits that have been paid out of the consolidated revenue funds; will they appear in this proprietor's equity?

Mr. McLAREN: No, they will not.

Hon. Mr. STEWART: These are as it were forgotten.

Mr. McLAREN: They would appear in the public accounts.

Hon. Mr. STEWART: They will not appear in the accounts of the railway at all.

Mr. McLAREN: Only in the public accounts, in the schedule that is being prepared by the Department of Finance.

Hon. Mr. STEWART: And they will not be reflected in the proprietor's equity statement.

Mr. McLAREN: No. What will appear in the proprietor's equity will be represented by assets; in other words, the investments in the Canadian National Railways as they are known now.

Mr. BEAUBIEN: As they will be known after this bill has passed.

Mr. McLAREN: There will be no deficit in there. That amount will be just the value that is represented by assets. The public debt will show how much money has been invested in the railway. I am speaking about cost, the residue of investment will be shown in the equity account.

Hon. Mr. STEWART: The amount that is paid out of the consolidated revenue every year; isn't that in there in that investment?

Mr. McLAREN: Paid for?

Hon. Mr. STEWART: For your deficit.

Mr. McLAREN: Well, that is the shareholders' loss, that is not an investment.

Hon. Mr. STEWART: Exactly.

Mr. McLAREN: That is something to appear in the shareholders' accounts, not on the railway account.

The CHAIRMAN: Shall section 1 carry?

Section 1 carried.

On section 3, adjustment of corporate books—shall I read the marginal notes or shall I read the clause?

Hon. Mr. VIEN: The clause, if you please.

Minister to surrender to C.N.R. Coy. its capital stock.

3. The Minister is hereby authorized to surrender to the Canadian National Railway Company, for cancellation, the outstanding capital stock of that company, having the par value of one hundred and eighty million four hundred and twenty-four thousand three hundred and twenty-seven dollars and seventy cents.

The CHAIRMAN:

ADJUSTMENT OF CORPORATE BOOKS

Minister to surrender to C.N.R. Coy. its capital stock.

3. The Minister is hereby authorized to surrender to the Canadian National Railway Company, for cancellation, the outstanding capital stock of that company, having the par value of one hundred and eighty million four hundred and twenty-four thousand three hundred and twenty-seven dollars and seventy cents.

Shall section 3 carry?

Carried.

Mr. BOTHWELL: There is one question I should like to ask. In the statement that was given by the minister on the opening date of this committee he refers to the Canadian National capital stock, gross amount of \$180,000,000. I suppose this clause deals with that.

Hon. Mr. HOWE: Yes.

Mr. BOTHWELL: Then you carry it forward at \$165,000,000.

Hon. Mr. HOWE: The total issue was \$180,000,000, but \$165,000,000 was all that was ever put in circulation. The amount of stock authorized was \$180,000,000; the amount issued was \$165,000,000.

Mr. VIEN: What has become of the balance?

Hon. Mr. HOWE: I suppose it is still in the treasury.

The CHAIRMAN:

Minister to surrender to Can. Northern certain of its capital shares.

4. The Minister is hereby authorized to surrender to The Canadian Northern Railway Company, for cancellation, eight hundred and twenty thousand and six shares of the outstanding capital stock of that company, having the par value of eighty-two million six hundred dollars.

Shall section 4 carry?

Carried.

Section 5.

Mr. VIEN: Just a minute, Mr. Chairman. Is there a statement somewhere showing the details of this amount?

Hon. Mr. HOWE: The information in relation to \$100,000,600 is shown in appendix 2 of the bill.

Mr. VIEN: There is no reference to appendix 2.

The CHAIRMAN: The appendices do not form part of the bill; the schedules only form part of the bill. The appendices are attached to the bill for the purposes of enlightenment.

Mr. SMART: There is an explanatory note on the opposite page.

The CHAIRMAN: We are now on clause 5. If you look at the note you will see that this section is to establish control of the Canadian Northern Railway Company by the Canadian National Railway Company. Shall the section carry?

Mr. VIEN: Is there a statement somewhere giving the details of this Canadian Northern stock?

Mr. SMART: It is now held by the Crown, and this section transfers it to the Canadian National Railway Company.

Mr. VIEN: Yes.

Mr. McLAREN: On page 11 you will find the information you are seeking. It is contained in appendix No. 2.

The CHAIRMAN: Yes. When we come to page 11 we shall have to go through the appendices.

Mr. VIEN: I am much denser than the other members, I have to take a little time.

The CHAIRMAN: Quite right, take all the time you like.

Mr. VIEN: Appendix 2 covers sections 4 and 5, is that correct?

Mr. McLAREN: Yes. It contains information in regard to the stock.

The CHAIRMAN: Shall the section carry?

Some Hon. MEMBERS: Will you read the section.

The CHAIRMAN:

C.N.R. and Can. Northern exchange of stock.

5. The Minister is hereby authorized to transfer to the Canadian National Railway Company one hundred and eighty thousand shares of the outstanding capital stock of The Canadian Northern Railway Company having the par value of eighteen million dollars, being the residue of the stock of the said company outstanding after the cancellation provided for in the next preceding section, in exchange for one million no par value shares of capital stock of the Canadian National Railway Company with the initial stated value of eighteen million dollars, the issue of which shares is hereby authorized to be made with the approval of the Governor in Council.

Carried.

We are now on section 6.

C.N.R. not to dispose of Can. Northern stock without approval of Parliament.

6. The Canadian National Railway Company shall not sell, pledge, release or otherwise dispose of any of the capital stock of The Canadian Northern Railway Company without the approval of Parliament.

Hon. Mr. STEWART: Carried.

Carried.

The CHAIRMAN: Section 7.

Minister to abandon certain claims against C.N.R.

7. The Minister is hereby authorized to abandon certain claims against the Canadian National Railway Company in respect of the Grand Trunk Railway Debenture Account amounting to fifteen million one hundred and forty-two thousand six hundred and thirty-three dollars and thirty-three cents, together with any claim for interest thereon, representing aid granted to The Grand Trunk Railway Company of Canada by the Province of Canada prior to Confederation.

Mr. VIEN: Where shall I find the information in regard to this section?

Mr. SMART: Appendix 3.

Mr. VIEN: What does that mean? Does that mean that the minister is obliged to surrender certain claims? Why is it necessary for the minister to surrender certain claims?

Hon. Mr. HOWE: These debentures rank junior to the ordinary stock of the Grand Trunk Railway. The ordinary stock was declared valueless in the arbitration; it therefore follows that this stock must be valueless.

Mr. VIEN: This debenture stock is held by the Crown now?

Hon. Mr. HOWE: Yes, but it will be cancelled in this bill.

Mr. VIEN: Has this anything to do with the protest that we have received with respect to the debenture stock?

Hon. Mr. HOWE: Nothing at all.

Mr. VIEN: It has nothing to do with it?

Hon. Mr. HOWE: No; these are different debentures.

Carried.

The CHAIRMAN: Section 8 stands in accordance with the wishes of the committee so that the amendments offered by the minister shall appear in the minutes and be considered by the committee at the next meeting. We are now on section 9.

R.S., c. 172. Surpluses and deficits

9. Notwithstanding the provision of section fifteen of the *Canadian National Railways Act*, the surpluses or deficits of the Government Railways subsequent to December thirty-first, nineteen hundred and twenty-two, shall be included in, and deemed to be part of, the surpluses or deficits, as the case may be, of the National Railways.

Shall section 9 carry?

Mr. VIEN: Give me a moment, Mr. Chairman, to read the note.

Mr. BEAUBIEN: That means the Intercolonial, etc.?

Mr. VIEN: All right.

Carried.

The CHAIRMAN: Section 10.

Surplus earnings to go into C.R. Fund

10. Whenever the accounts of the National Railway System as certified by the auditors appointed by Parliament show surplus earnings after the payment of all charges including interest on securities held by the public, the directors of the Canadian National Railway Company may cause to be paid over to the Minister for the Consolidated Revenue Fund all or any part of any such surplus earnings.

Mr. VIEN: Why should the surplus not be kept by the company, Mr. Chairman, and administered and treated as surplus of the company?

The CHAIRMAN: The section says "may".

Hon. Mr. HOWE: This section is permissible. It permits the directors to pay dividends to the shareholders, that is all. They can do it or not as they think wise.

Mr. VIEN: I should like in this recapitalization to see the Canadian National Railways treated the same as an independent company if possible. I am not speaking of being independent in the sense of lack of control by parliament or the minister but in the sense of the operation of its annual financial statement. An ordinary company which has profits either distributes them or accumulates them in a surplus or reserve account. The Canadian National Railways need a reserve account for emergency purposes. For instance, if this year they have a surplus of \$10,000,000, and next year, instead of having a crop of 500,000,000 bushels we have a crop of 200,000,000 bushels the earnings of the company will be less through causes beyond their control. If the company were allowed to carry out its operations as an ordinary company would there would be a surplus account to protect them against such eventuality, and in three or four years the annual statement of the Canadian National Railways would be a true picture of the situation. If, when you have a surplus of \$5,000,000 or \$10,000,000 you shift that to the consolidated revenue fund and next year you have a deficit of \$10,000,000 you ask parliament to vote you \$10,000,000 to make up the deficit. If that occurs at the end of five or ten years we shall be exactly in the position to which we now find ourselves.

Mr. BEAUBIEN: The Canadian National Railways have a surplus this year on their operating account; but when the interest is paid to the bondholders they had a deficit.

Mr. VIEN: I agree.

Mr. BEAUBIEN: How could you put anything in the surplus account this year, when the Canadian government is voting somewhere around \$40,000,000 to make up the deficit?

Mr. VIEN: I understand, and I agree with my hon. friend that it is not possible to show a surplus when there is a deficit. I am not suggesting that. I was addressing myself to a very different point. The point to which I was addressing myself was that after this recapitalization was effected would it not be possible for the company to carry its annual financial statement as an ordinary company would? If they have \$5,000,000 of a surplus, let them show it and keep it, and then if they have a deficit next year and they borrow from that surplus account to that extent, and if they have to borrow from the government, let it be a loan to the company which will be shown as a loan from the government, as an ordinary company would borrow from the public. It should be treated as is done in an ordinary company that borrows from the bank.

Mr. BEAUBIEN: Suppose the Canadian National Railways have \$10,000,000 on their operating expenses. Would you want them to put that \$10,000,000 in their reserve fund and let the Canadian people who are really the shareholders pay the \$50,000,000 odd that is due to the bondholders?

Mr. VIEN: I am not suggesting that at all. I am talking about the net result of the operation of the railway as reflected in their annual statement, just as an ordinary company would do. If after the operating results are known there is a surplus it goes to offset the fixed charges and overhead expenses, and if there is a deficit or a surplus it should be reflected in the annual financial statement and carried from year to year so that at the end of two or three, four or five years, we shall have a true picture of the result of the operations on the basis of his new recapitalization.

Hon. Mr. HOWE: This is only permissive. It permits them to pay a dividend if they so desire. I think it would be hard to persuade the directors that they ought to pay money over to the government. I think they will contend they ought to make surpluses before they pay them over to the government.

Mr. VIEN: The surplus, if any, is transferred.

Hon. Mr. HOWE: Not necessarily; may be.

Carried.

The CHAIRMAN: Section 11.

Accounts of National Railway System how to be shown.

11. The accounts of the National Railway System shall be stated as of January first, nineteen hundred and thirty-seven, and thereafter, so as to show the proprietor's equity as defined by this Act.

If you look at the marginal note you will see the following:—

Proprietor's Equity is defined in Section 2 (f) of this Act and the application is evidenced in appendices 4, 5 and 6.

Is it the desire of the committee that we should peruse in detail the appendices on page 11, page 12 and 12a, 4, 5 and 6?

Mr. HANSON: No.

Mr. VIEN: Will you give me just a second. These are details of the transfer.

Mr. YOUNG: The only thing that struck me about that paragraph was January 1 instead of December 31, 1936.

The CHAIRMAN: I think that is the railway calendar year.

Mr. SMART: From the 1st January.

Mr. VIEN: Could this section stand, Mr. Chairman. There might be no objection but I should like to ponder over it.

The CHAIRMAN: Is it the desire of the committee that the section should stand?

Section stands.

We are now on section 12.

Corporation Securities Trust Constitution.—No trustee remuneration.

12. There shall be a corporation to be known as "The Canadian National Railways Securities Trust," hereinafter referred to as the "Securities Trust," consisting of five trustees being the Deputy Minister of Finance, the Deputy Minister of Transport, the Deputy Minister of Justice, the Chairman of the Board of Directors of the National Railways and the Vice-President of Finance of the National Railways. The trustees shall serve without remuneration.

Shall section 12 carry?

Carried.

The CHAIRMAN:

Objects of corporation.

13. The object of the corporation shall be to take over and hold as authorized by this Act the indebtedness to His Majesty, together with the collateral securities held by the Minister in respect thereof as set out in Schedule A of this Act.

Shall section 13 carry?

Mr. VIEN: Just a minute, please.

Hon. Mr. STEWART: These figures, of course, will be revised on the basis of the new statement?

Hon. Mr. HOWE: Yes.

Mr. VIEN: Where is schedule A?

The CHAIRMAN: Schedule A is on page 6 and 7. They are simply the details.

Mr. VIEN: Schedule A—loans.

Hon. Mr. STEWART: That is the detail of it.

Mr. BOTHWELL: What is the \$41,554,000 in suspense?

Hon. Mr. HOWE: That is advances by the Dominion Government for capital purposes that have not yet been refunded by the railway; that is, repayable advances to the railway.

Mr. BOTHWELL: When was that?

Hon. Mr. HOWE: Over a period of several years.

Mr. VIEN: Is it shown in detail, this \$41,000,000?

Hon. Mr. HOWE: Have you that, Mr. McLaren?

Mr. McLAREN: The details of the \$41,000,000—yes, we have the details of that.

Mr. VIEN: It is not shown in the appendices of the bill.

Mr. McLAREN: No. But we can file a statement giving the details of it.

Mr. VIEN: Could you do that?

Hon. Mr. STEWART: On page 9 it is shown.

Hon. Mr. HOWE: I was mistaken about that. It is an old dispute as to interest on the old Grand Trunk Pacific Railway.

Hon. Mr. STEWART: It is shown on page 9.

Hon. Mr. HOWE: You could explain that.

Hon. Mr. STEWART: "Amount not taken to account by C.N.R."

The CHAIRMAN: On page 9, schedule A.2 concluded, you will find the details.

Mr. FRANKLIN: It is principally in connection with the old Grand Trunk Pacific. There was a guarantee in the old days for several years, and when the Grand Trunk abandoned the Grand Trunk Pacific, it was what we considered a breach of contract. Therefore the interest guaranteed by the government on those bonds of the Grand Trunk Pacific was still assessed to the railway, and the railway has not taken up those assessments, and they amount almost to a great deal of the \$41,000,000.

Mr. VIEN: They speak of the Canadian National Railways here. They do not speak of the Grand Trunk.

Mr. FRANKLIN: It is part of the Canadian National System, that particular part.

Mr. VIEN: But you are aware what it refers to?

Mr. FRANKLIN: Yes.

Mr. VIEN: Could this clause 13 stand, Mr. Chairman? I will tell you why I ask; it is because it defines what is going to be transferred to the securities trust.

The CHAIRMAN: There is no question about that. Schedule A forms part of the bill.

Mr. VIEN: Yes.

The CHAIRMAN: Stands?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Shall clause 13 stand?

Some Hon. MEMBERS: Yes.

The CHAIRMAN:

Securities Trust capital stock. To be held by Minister.

14. The capital stock of the Securities Trust shall consist of five million shares of no par value, which capital stock shall be issued to the Minister to be held on behalf of His Majesty as consideration for the transfer to the Securities Trust of the indebtedness to His Majesty and of the collateral securities held by the Minister in respect thereof.

Shall section 14 carry?

Carried.

The CHAIRMAN:

Initial stated value of Securities Trust capital stock.

15. The capital stock shall be shown on the books of the Securities Trust as having an initial stated value equal to the total of the loans made by His Majesty to, and expended by, the National Railway System for capital purposes prior to January first, nineteen hundred and thirty-seven, which loans are set out in Schedule A of this Act, being loans which have not been and are not to be funded by the National Railways.

Shall clause 15 carry?

Hon. Mr. STEWART: Wait until we see that Schedule A. Is that grand total of \$645,527,455.83 correct?

The CHAIRMAN: Where do you see that?

Mr. VIEN: What page is that detail?

The CHAIRMAN: Schedule A, page 6?

Hon. Mr. STEWART: Page 8, which follows right after A-1.

The CHAIRMAN: As this schedule stands in connection with section 13, we might as well pass this clause and hold the schedule in abeyance for discussion later on.

Hon. Mr. STEWART: There is a principle involved in this, I think.

The CHAIRMAN: I do not think there is much in it, Mr. Stewart.

Hon. Mr. STEWART: Is the amount that is mentioned, the total in the schedule of \$645,527,455.83 correct?

The CHAIRMAN: Can you answer that, Mr. McLaren?

Mr. McLAREN: I do not know what the question is.

The CHAIRMAN: On page 8, at the bottom of the page there is an amount given of \$645,527,455.83. Is that amount correct?

Mr. McLAREN: That is the total loans.

Hon. Mr. STEWART: Is that the item referred to in section 15?

Mr. McLAREN: No. This item of \$284,000,000 for capital purposes referred to on page 6, schedule A—

Mr. VIEN: It is not the total indebtedness to His Majesty and of the collateral securities held by the minister in respect thereof.

Mr. McLAREN: Paragraph 15 provides for capital purposes. The capital amount is the first item shown on schedule A on page 6.

Mr. VIEN: Yes, but you say that the capital stock of the Securities Trust, which you have mentioned, shall consist of five million shares, which will be shown in the books as having a value equal to the total indebtedness to His Majesty and of the collateral securities held by the minister in respect thereof. I think it would be advisable that this clause should stand in connection with 13. I see no great difficulty except in analysing the figures.

The CHAIRMAN: What I mean, Mr. Vien, is that schedule A is in both 13 and 14; and we are allowing clause 13 to stand. We could pass clause 14 and you will be able to discuss the whole details of it when the schedule is under consideration.

Mr. BOTHWELL: We have passed 14 already. Fifteen is not carried.

Mr. VIEN: We are on 14 now.

The CHAIRMAN: No, we are on 15.

Mr. VIEN: I am talking to 15. I am not talking to 14.

The CHAIRMAN: Yes.

Mr. VIEN: I am talking to 15. I am sorry.

The CHAIRMAN: That is all right.

Mr. McLAREN: My answer was in connection with section 15.

The CHAIRMAN: You see, Mr. Vien, schedule A is the crux of the whole thing, and we are letting schedule A stand until when we consider clause 13.

Mr. VIEN: I have no objection to clause 15 carrying with the limitation that the value mentioned there will be discussed when we are taking the schedule.

The CHAIRMAN: It is bound to be discussed, because schedule A is not passed yet.

Mr. VIEN: Provided you do not drop the schedule.

The CHAIRMAN: I will not. Shall the section carry?

Carried.

The CHAIRMAN:

Trustees' powers—By-laws.

16. The trustees shall be charged with the management of the Securities Trust and, with the approval of the Governor in Council, may make all necessary by-laws for carrying out the objects of the Securities Trust.

(2) Such by-laws shall provide for meetings of the trustees to take place at least once in every year.

(3) The by-laws shall also provide for the custody of the corporate seal and for the execution of instruments by two or more of the trustees.

(4) The by-laws shall make provision for a presiding officer to be appointed at each meeting of the trustees and for the giving of notices of meetings.

(5) The by-laws shall provide what number of trustees shall constitute a quorum for the purposes of meetings.

Shall section 16 carry?

Mr. VIEN: Just a minute.

The CHAIRMAN: It is only the regulation.

Mr. VIEN: I think so.

Hon. Mr. STEWART: The details.

The CHAIRMAN: Shall it carry?

Carried.

The CHAIRMAN:

Head office

17. The head office of the Securities Trust shall be at Ottawa.

Shall it carry?

Carried.

The CHAIRMAN:

First meeting

18. The first meeting of the trustees shall be held at such time and place as is determined by the Deputy Minister of Finance.

Shall it carry?

Carried.

The CHAIRMAN:

Secretary

19. The Securities Trust shall have a Secretary to be appointed by the trustees, to hold office during pleasure, who shall perform such duties as are assigned to him by the trustees without remuneration.

Shall it carry?

Carried.

The CHAIRMAN:

Exchange of indebtedness for stock

20. The Minister may transfer to the Securities Trust the Indebtedness to His Majesty together with the collateral securities held by the Minister in respect thereof, in exchange for the capital stock of the Securities Trust, as a result of which transfer every company included in the National Railways shall become obligated to the Securities Trust in respect of the Indebtedness to His Majesty transferred and of the collateral securities held by the Minister in respect thereof, subject to the provisions of the next succeeding section, in the same way and to the same extent as such company was obligated to His Majesty at the time of the passing of this Act.

Shall it carry?

Mr. BOTHWELL: Just a minute.

Mr. VIEN: No. Shall we take it in French so that I will understand it more readily? I have got to let it sink in a little, and my own density does not allow me to go as fast as some hon. members.

The CHAIRMAN: Go on, Mr. Vien.

Mr. BEAUBIEN: I do not think there should be any time limit here.

Mr. RYAN: No, take your time, Mr. Vien.

Mr. VIEN: I do not want to be disagreeable to hon. members nor to delay the committee; but if we are carrying on a serious piece of business, we should have sufficient time to consider it.

The CHAIRMAN: Go on, Mr. Vien. Nobody objects.

Mr. RYAN: We are here for a specific purpose. There is no use of rushing.

Mr. BEAUBIEN: There is nobody objecting, Mr. Vien. It is only imagination on your part.

Mr. VIEN: Mr. Chairman, the effect of that seems to be to preserve the status quo as it is now of all the securities. That is all I find in the section.

The CHAIRMAN: Exactly.

Hon. Mr. HOWE: Exactly.

Mr. BOTHWELL: Both that one and 21—20 and 21.

Mr. VIEN: I think so.

The CHAIRMAN: Shall section 20 carry?

Carried.

The CHAIRMAN:

Securities Trust not to dispose of indebtedness except with approval of Governor in Council

21. The Securities Trust shall not sell, pledge, release or otherwise dispose of any of the Indebtedness to His Majesty transferred to the Securities Trust or the collateral securities held in respect thereof, except with the approval of the Governor in Council.

Shall that section carry?

Hon. Mr. STEWART: Why not parliament? It is just a question whether that should be parliament or the governor-in-council with respect to the transfer. There is one other section which said that something was not to be done without the consent of parliament.

Mr. HEAPS: Clause 6.

Mr. VIEN: I think it should be parliament here.

Hon. Mr. STEWART: Clause 6 reads:—

The Canadian National Railway Company shall not sell, pledge, release or otherwise dispose of any of the capital stock of the Canadian Northern Railway Company without the approval of parliament.

Then section 21 says:—

The Securities Trust shall not sell, pledge, release or otherwise dispose of any of the indebtedness to His Majesty transferred to the Securities Trust or the collateral securities held in respect thereof, except with the approval of the Governor-in-Council.

The CHAIRMAN: Mr. Stewart, we have not the Cabinet Minister here now. I would like to have the opinion of Dr. Clarke on the matter. Shall we let the question stand until next meeting, and will you kindly report on it?

Mr. CLARKE: I take it that the real question would relate to the facility of making certain arrangements in regard to the financing of some of these unguaranteed securities of some of these people. If you had to wait until you passed an act approving of it, it might interfere with going ahead with a financial operation at an appropriate time.

Hon. Mr. STEWART: I see they transfer them to the Securities Trust.

Mr. HEAPS: I was wondering, if you wanted to do a little refinancing or refunding, and if we should put into this clause here "parliament" instead of the "Governor in Council," whether we would have to wait until parliament meets.

The CHAIRMAN: Exactly.

Mr. HEAPS: Would it not be in conflict with clause 6?

The CHAIRMAN: Clause 6 deals only with "the capital stock of the Canadian Northern Railway, without the approval of parliament." That is another thing altogether.

Mr. BOTHWELL: Exactly.

The CHAIRMAN: The other is something that has got to be carried on when parliament is not sitting.

Hon. Mr. STEWART: What securities would the Trust be holding which they might want to sell?

The CHAIRMAN: I do not know.

Hon. Mr. STEWART: If there is any other reference to that point—

Mr. SMART: There are certain collateral securities held by the Crown which may, for instance, fall due—become matured—and some action will have to be taken with regard to this; or there may be some clearance necessary of those certificates held as collateral.

Hon. Mr. STEWART: Securities that the Securities Trust has?

Mr. SMART: Yes, held as collateral, that have been turned over by the government. You see, the government has got certain collateral securities.

Hon. Mr. STEWART: Let us look at the schedule; can you point out any of the ones which are transferred that might be that way?

Mr. McLAREN: Page 7A, schedule A.1 lists the loans; the collateral is all specified there.

Mr. SMART: The notes and collateral held, Mr. Stewart?

Hon. Mr. STEWART: Yes.

Mr. BEAUBIEN: I did not hear that last remark, Colonel Smart.

Mr. SMART: The collateral held by the Crown in connection with certain of these loans is shown in the second column.

Mr. VIEN: This might stand until the next sitting. It is not an important section, but perhaps, we might have further information. It is only a question of whether direct authority should be granted in each case, or whether it should be left to parliament. It might well be, as Colonel Smart has just mentioned, to have the authority by order in council.

Mr. SMART: You cannot borrow otherwise.

Hon. Mr. STEWART: It seems to me that possibly there is something to be said for the statement made by the deputy minister when you come to these loans on equipment, second mortgage equipment bonds.

Mr. SMART: All sorts of things happen.

The CHAIRMAN: I do not think there is anything in it.

Mr. VIEN: It is all right.

The CHAIRMAN: Shall section 21 carry?

Carried.

The CHAIRMAN:

Securities Trust declared a company in National Rys.

22. The Securities Trust is hereby declared for the purposes of this Act to be a company comprised in the National Railways.

Mr. BOTHWELL: I wonder what that word means.

Hon. Mr. STEWART: I was wondering from a lawyer's standpoint what it meant. Is it not a separate entity?

Mr. BOTHWELL: "Comprised in the National Railways"—I do not understand the term myself.

Mr. VIEN: I like the term.

Mr. SMART: You have to go back to the Canadian National Railway Act.

Mr. BOTHWELL: "Comprised in the National Railways." I cannot understand the terms myself.

Mr. SMART: You have to go back to the Canadian National Railway Act. The Canadian National Railway company, as it stands now, is a corporation; but there are a lot of other railways in it, and we call it the Canadian National Railways. It is not a corporate situation at all. The balance sheet is a consolidation of all those different companies into one under the Canadian National Railways system, which is not a corporate body in itself. And that is what that means—that the securities trust is one of the subsidiaries which will go into the consolidated balance sheet.

Mr. BOTHWELL: Do I understand the Canadian National Railways is a holding company of the stock of other railways?

Mr. SMART: It is a trade name.

Mr. CLARK: Not a holding company.

Mr. McLAREN: The Canadian National Railway is a corporate company; the Canadian National Railways is just a trade name.

The CHAIRMAN: It is a sub-company you are organizing now entitled a securities trust.

Mr. BOTHWELL: All that says is that we can consider the securities trust as a part of the Canadian National Railways.

Mr. VIEN: The question is how does it clarify the matter?

Mr. McLAREN: It becomes a company "comprised in the National Railway."

Mr. VIEN: I can understand the language quite easily, but it is more difficult at first sight to find out why it is necessary that it should be so. Here is a bill that has created a trust, and then you say that the securities trust shall be part of the Canadian National Railways.

Mr. SMART: And it goes into the consolidated balance sheet.

The CHAIRMAN: Exactly.

Mr. McLAREN: Look on page 2. Sections D and E define what the Canadian National Railways are. Now, in order that the consolidated balance sheet may be made to include the securities trust it is necessary, in my opinion, to have such a clause in there to show it will be comprised in the Canadian National Railway.

Mr. VIEN: You make of the securities trust a distinct and separate company.

Mr. McLAREN: So it is.

Mr. VIEN: You comprise it in the Canadian National Railways, which is a trade name, but you separate and segregate it from the Canadian National Railway company; is that correct?

Mr. SMART: The Canadian Northern Railway company is a separate one too.

Mr. VIEN: I am not particular about the Canadian Northern, but I am particular about the securities trust. You make of that securities trust a separate and distinct company. It will be carried under the generic trade name of Canadian National Railways, but it will not form part of the Canadian National Railway company. Is that correct or is it not correct?

Mr. SMART: It will form part of the Canadian National Railway system if you want to go into the balance sheet, which is a consolidation of all the separate companies.

Mr. VIEN: It will no longer be there.

Mr. SMART: Yes. It goes into the consolidated balance sheet.

Mr. VIEN: Again speaking subject to correction and with deference to the hon. gentleman to whom I am addressing my remarks, if I am wrong I want to be shown.

Mr. McLAREN: On page 31 of our annual report there is given the names of the companies comprising the Canadian National Railway system. There are about one hundred companies there all of which have balance sheets. They are consolidated, and make up the balance sheet as produced on pages 16 and 17 of the annual report. This section 22 of the act provides that the securities trust shall be comprised in the national system.

Mr. SMART: And be listed therein.

Mr. VIEN: Could we allow that to stand? It will not take long, very likely, but I would like to ponder over that.

Mr. RYAN: How are those railways made part of the railway system? What page of your annual report did you refer to?

Mr. McLAREN: 31 and 32. The act is defined on page 2, sections D and E.

The CHAIRMAN: The section stands. Section 23 is a new section. Section 24 is a new section. And section 25 will be a new section, and I suppose it will have to wait.

Mr. VIEN: Have we the final draft of these new sections?

The CHAIRMAN: Yes.

Mr. VIEN: Will they appear in the record?

The CHAIRMAN: Yes. Section 25 is that the present clause 23 be numbered to read 25. I suppose you have no objection to that.

Mr. YOUNG: The only objection to that would be that in the event of our not finishing the bill and some other clause having to go in, it might not be 23.

Mr. VIEN: This should stand.

The CHAIRMAN: Yes. It will not take very long.

Mr. VIEN: Now, I would like to make a recommendation—if I may defer for a moment—and it is connected with the last section that we allowed to stand, section 21, and the definitions in section 2. In referring to the definitions that are contained in various other acts, it is a bit cumbersome. You have to hunt up all these acts and read them. I would suggest that section 2 be redrafted; and that instead of making reference to the definitions to be found in another act we should repeat the definition. It does not change it one iota, but it facilitates reference so much more. You understand, Mr. Chairman, what I have in mind.

The CHAIRMAN: I know what you mean.

Mr. VIEN: It does not alter it; but instead of having to look to the Canadian Government Railways or to look to the Canadian National Railways or the Railways Act, I would suggest that it be repealed. It will be helpful all around.

The CHAIRMAN: I have no objection.

Mr. BEAUBIEN: Section 2 was passed.

Mr. VIEN: What I am suggesting does not change the principle of the concurrence of the committee in section 2. Section 2 is passed, and we agreed to it.

The CHAIRMAN: It means that the full definitions will be included in the bill.

Mr. SMART: I take it that all you want is to transfer the definition that is found in the Canadian National-Canadian Pacific Act so that the Canadian National-Canadian Pacific Act of 1933 shall have these references?

Mr. VIEN: Exactly. But I would suggest also paragraph A of "Government Railways" and paragraph D. I think those are the only ones.

The CHAIRMAN: Gentlemen, we shall adjourn until Tuesday.

Hon. Mr. STEWART: Before we adjourn, Mr. Chairman, there is one matter I would like to bring up, and in doing so I hope you will not find me too troublesome.

The CHAIRMAN: You have done extremely well.

Hon. Mr. STEWART: Thank you. The same to you. I think that the officials of the Canadian National Railways can help to clear up a difficulty that exists in the minds of a great many people. There is a difference of opinion as to the loss on the Canadian National Railways. Now, on page 18 we have three items: net, profit and loss:

Mr. YOUNG: You are referring to last year's report are you?

Hon. Mr. STEWART: Yes, of course. One item is \$30,453,831.42. That is net profit and loss items debit. Then there is net income deficit \$48,878,000 odd. Then there is interest on Dominion government loans \$35,000,000 odd, making the total loss to the system \$115,000,000 odd. Now, if we could have some clear statement which would place each of those items in its proper relation it would, I think, help to clear up the misunderstanding in the minds of the public, because a lot of people insist that the annual loss is \$115,000,000 whereas a lot of others contend that it is only \$48,000,000. Could we get any statement now, or at the next meeting of the committee, that would place these consecutively one in relation with the other, apart from just a bare statement of the figures—explain them, as it were, in relation of the one to the other, and the total?

Mr. McLAREN: Well, Mr. Stewart, the report specifies that interest on Dominion government loans is \$35,000,000 odd. That is clear. You are trying to get clear in your mind the difference between book deficit and the contribution of the government, I presume?

Hon. Mr. STEWART: That is one thing. The total loss is spoken of as \$115,000,000 odd. That is right, I presume, otherwise it would not appear in the statement.

Mr. McLAREN: It is stated there.

Hon. Mr. STEWART: On ordinary business principles that is the total annually.

Mr. McLAREN: I do not say it is correct, because while that interest is shown as \$35,000,000 there is a question whether that is the correct interest or not. Therefore I do not know whether it is correct. But I am pointing out to you that it specifies interest on Dominion government loans \$35,949,676.70. Now the difference between the \$115,000,000 odd less the \$35,000,000 I have spoken of and the \$47,421,464.80 which is the contribution by the government represents chiefly capital loss.

Mr. RYAN: In other words, that does not represent an annual loss; it includes interest charges.

Mr. McLAREN: Not only, because you have \$25,000,000 loss on equipment, obsolete equipment that has occurred, possibly, over twenty-five years. You could not say that is a correct assignment for that year. It would have no relation to the \$25,000,000, because it was used up in the last quarter of a century.

Mr. DEACHMAN: Why should it not be charged off for the years in which it was used?

Mr. McLAREN: That comes to the question of depreciation accounting which is not permissible under the government regulations on railroads in Canada.

Hon. Mr. VIEN: I think we went into that very fully last year. I think that when the Canadian National Railway officials filed with this committee the regulations that had been referred to by Mr. Fairweather; and I recall that we could not find and he could not find in those regulations anything which would estoppe the Canadian National Railway or any Canadian railway system from deducting a proper depreciation year by year. We had that investigated last year and I recollect that Mr. Fairweather found himself unable to refer to the rule, he had the book in his hand and he was unable to refer to the rule. I sometimes overlook a few articles of the civil code, from the code of civil procedure, and I would not at all blame him for not having found the rule if it is there. But, as I said previously I am from Missouri in such matters and I would like to be shown. I do not believe that you can show us any rule of the Department of Railways and Canals—and Colonel Smart will correct me if I am wrong in that respect—any rule of the department or of the governor in council preventing the railway from establishing a proper depreciation fund and a proper depreciation ratio in respect to its operating figures every year. I agree that the Canadian Pacific Railway does not, as was shown to the committee last year, keep its books in such a way as to depreciate its equipment from year to year; yet I think it would be inaccurate to state that this figure of \$29,000,000 is not a proper figure to appear in the annual statement of the company. The year previous you had an item for retirement of equipment, and periodically, every four, or five or six years you retire a much greater volume of equipment. And then, you show in your profit and loss statement a considerable figure to cover up the lack of adequate depreciation from year to year. That does not give to the average reader of the financial statement a true picture of the situation. For instance, in a poor year you might forget about depreciation altogether, but in a more profitable year you might borrow more abundantly from the depreciation fund or from your operating earnings to make up for the shortness of depreciation in other years. I believe that you would find it quite possible to create a depreciation fund and charge your operating expenses a certain ratio from year to year to take care of that.

Hon. Mr. VIEN: Then I, for one, would move that such regulations be immediately altered.

The CHAIRMAN: Would that meet your wishes, Mr. Stewart?

Hon. Mr. STEWART: Yes. There is just one other question on that; assuming that this proposed legislation had been in effect say two years ago would it have had any effect on these figures appearing on page 18?

Mr. McLAREN: Not at all, Mr. Stewart. The effect would have been that if this 1935 accounting was under the new regulations the equity of the government would have been reduced by that \$25,000,000 for obsolete equipment.

Hon. Mr. STEWART: I am not referring to that. I am referring to these three figures which go to make up the \$115,281,000 odd that I have mentioned. Would it have had any effect upon those figures at all.

Mr. SMART: The interest would have.

Mr. BOTHWELL: That interest would have disappeared.

Mr. McLAREN: That interest would not be there.

Hon. Mr. STEWART: If it is not too much trouble I would like to know, based on that statement, the figure that would have appeared in this statement, or will appear in your next statement.

Mr. McLAREN: In other words, you would like 1935 recasted to show what it would be under the new proposed legislation?

Hon. Mr. STEWART: Exactly; so that we will then have before us the net effect upon the annual statement of these figures.

Mr. McLAREN: Right.

The CHAIRMAN: Will you have that ready for Tuesday?

Mr. McLAREN: Yes, we will try.

The CHAIRMAN: We will adjourn until Tuesday at 10.30.

The committee adjourned at 12.35 o'clock p.m., to meet again on Tuesday next, March 9, 1937, at 10.30 o'clock a.m.

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Committee 1937

SESSION 1937

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

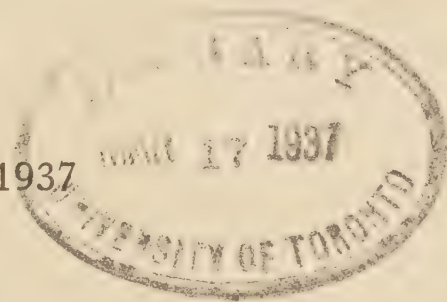
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

TUESDAY, MARCH 9, 1937



Consideration of Bill No. 12, An Act to provide for revision of the
accounting set-up of the Canadian National Railway System.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1937

REPORT TO THE HOUSE

SECOND REPORT

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

SECOND REPORT.

Your Committee has had under consideration Bill No. 12, An Act to provide for revision of the accounting set-up of the Canadian National Railway System, and has agreed to report the Bill with amendments.

Your Committee has ordered a reprint of said Bill as amended.

All of which is respectfully submitted.

EUGENE FISET,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, March 9, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10.30 a.m., the Chairman, Sir Eugene Fiset, presiding.

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Deachman, Ferland, Fiset (Sir Eugene), Heaps, Howden, Kinley, McKinnon (*Kenora*), Maybank, Stewart, Walsh, Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport, Dr. W. C. Clark, Deputy Minister of Finance, and officials of the Canadian National Railways, including Mr. D. C. Grant, Vice-President of Finance, Mr. J. B. MacLaren, Comptroller, Mr. J. H. Cooper, Assistant Comptroller and Mr. A. V. Franklin, Railway Auditor, Department of Finance.

On motion of Mr. Walsh,

Resolved,—That the Chairman be authorized to have necessary corrections made to the statement of the Honourable, the Minister of Transport, as reported on pages 2 and 3 of the printed proceedings. (See Appendix B).

On motion of Mr. Kinley,

Ordered,—That the following correction be made in the Minutes of Evidence viz:—

Page 33, line 28, the words "Bill B" to be substituted for the words "Bill 12".

Dr. W. C. Clark, Deputy Minister of Finance, submitted six statements requested by Mr. Walsh at the previous sitting of the Committee.

On motion of Mr. Bothwell,

Ordered,—That these statements be printed in this day's Minutes of Proceedings. (See Appendix C.)

The Committee resumed consideration of Bill No. 12, An Act to provide for revision of the accounting set-up of the Canadian National Railway System.

A redraft of Section 2 was submitted and the section adopted as so amended. Section 8 amended to read as follows:—

Notwithstanding any provision of the Consolidated Revenue and Audit Act 1931 or any other act, the Minister may, in order to adjust certain differences between the public accounts of Canada and the accounts of the National railway system relative to the government railways and the Hudson Bay railway, and in order to give effect to the surrender, exchange or abandonment of securities or claims authorized by this act, make the adjustments in the public accounts of Canada which are set out in schedule "B" of this act.

Sections 11, 13 and 22 adopted.

New Section 23 adopted as follows:—

The trustees of the securities trust shall present to Parliament annually concurrently with the annual report of the Canadian National Railways through the Minister of Transport, a balance sheet together with the report setting forth in a summary manner the transactions of the securities trust during each calendar year.

New Section 24 adopted as follows:—

Appendix to Public Accounts showing total assistance to all Railways—

The Minister shall include annually as an appendix to the Public Accounts of Canada, a statement showing the total assistance, whether by way of cash outlay, land grant, loan, advance, guarantee or otherwise, given by the Dominion to all railways. Such statement shall also show the manner in which such assistance has been dealt with in the Public Accounts of Canada.

Section 23 (to become section 25 in amended Bill) adopted.

Schedule A adopted with the provision that the figures of the 1936 calendar year be substituted for those of 1935.

Schedule B as amended and shown on pages 76 and 77 of the printed record, adopted with the provision that the figures of the 1936 calendar year be substituted for those of 1935.

Title carried.—

Bill to be reported.

By unanimous consent it was agreed to have the Bill reprinted and appendices revised to show the figures of the 1936 calendar year instead of the 1935 figures shown in the original copy.

At the request of Mr. Walsh, the Deputy Minister of Finance was asked to prepare a statement indicating how and during what years was compiled the Item of \$353,244,349.91 appearing in Schedule "B" under the heading "Adjustment in Public Accounts". Above statement to be incorporated in this day's proceedings as Appendix "D".

The Committee adjourned to meet at the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

March 9, 1937.

The Select Standing Committee on Railway and Shipping met at 10.30 o'clock. Sir Eugène Fiset, the chairman, presided.

The CHAIRMAN: Order, gentlemen. I am sorry that Mr. Vien is not here. He asked at the last meeting that the clause of the petition should be changed to embody the full sections of the act as they are referred to.

In looking the matter over, although the amendment proposed has been prepared, it appears to be extremely bulky and long to be embodied in, practically speaking, the preamble of the act, and to recite everywhere the part of the law mentioned in the interpretation clause. I do not know if it is advisable to do it. I am in the hands of the committee. We were rather inclined at the last meeting to put it in, but it is changing the procedure altogether.

Hon. Mr. STEWART: Mr. Chairman, it is not a matter of vital importance. It does not affect the provisions of the bill or the effect of it in any way. But it is always well to bring up to date your references, so that you will have them right before you. I cannot see any objection to it, because it is in the interpretation clause.

The CHAIRMAN: Quite right. I quite admit that, but it is new procedure. You will admit that yourself. I have never seen it, and I have been in the house many years.

Hon. Mr. STEWART: It is not altogether new. In one or two cases some member of the house pointed out that it was desirable, and it was done.

The CHAIRMAN: Of course, it is a special act. I have no objection whatever to doing it if you gentlemen wish it.

Mr. SMART: How would it be if that was in as one of the explanatory notes?

Hon. Mr. STEWART: I do not know whether that would help or not.

Mr. SMART: What he wanted was the definitions.

Hon. Mr. STEWART: I have not seen the length of it.

Mr. SMART: There are three definitions.

Hon. Mr. STEWART: Yes.

The CHAIRMAN: The full text of the law as it stands. Would you distribute that to the members of the committee, Mr. Arsenault, so that they will see exactly what he wants. Mr. Stewart, will you look at it? You will see how bulky it makes it. Do you think it should be done? It is a copy of all acts that exist and in which reference to the title was made in clause 2 of the bill. You have the whole thing before you. It is a complete picture of the bill.

Mr. KINLEY: What is the advantage of it?

The CHAIRMAN: Well, Mr. Vien thinks that at a glance you can see, when you are dealing with your interpretation of the bill, the whole picture before you. That is all.

Mr. YOUNG: It is not a great matter.

The CHAIRMAN: Is it the consensus of opinion that this should be embodied in the bill?

Hon. Mr. STEWART: I think so.

Carried. (See Appendix A.)

Mr. WALSH: Mr. Chairman, at Friday's meeting, through Mr. Stewart I asked for certain information to be brought down. Might I ask if that information has been brought down?

Mr. YOUNG: Have you got a copy for every member of the committee?

The CHAIRMAN: Do you want this to be included in the minutes?

Mr. WALSH: No. I want this particularly so that I could have reference to it when the bill is referred back to the house for the purpose of debate.

Mr. SMART: You want it included in the minutes?

Mr. WALSH: I think it would be advisable to have it included in the minutes, so that we could have ready reference to it.

The CHAIRMAN: As we have not a copy for each member, is it your desire that the full statement should be included in the minutes?

Mr. YOUNG: What statement?

The CHAIRMAN: In answer to the question asked by Mr. Walsh, there was filed by the deputy-minister of finance a full statement. The full answer is here, and I think it should be included in the minutes so that every member of the committee will be aware of it.

Mr. YOUNG: What question was that?

Mr. CLARKE: Consolidation of the accounts of the dominion and the Canadian National Railways.

Mr. BOTHWELL: That would be that schedule that is published from year to year in the public accounts?

Mr. CLARKE: No, it would not be that. Mr. Walsh asked for—

Mr. WALSH: A balance sheet before and after.

Mr. CLARKE: Yes, a balance sheet before and after; and a consolidated balance sheet before and after.

Mr. WALSH: Yes, in condensed form.

Mr. BEAUBIEN: I do not see why it should not be put in.

Mr. KINLEY: Is that not in the first reference?

The CHAIRMAN: I think we might as well have it in the minutes of proceedings so that every member will have it before him.

Hon. Mr. STEWART: Surely.

Mr. KINLEY: Is that not in the first statement that Mr. Howe made?

Mr. WALSH: No.

Mr. KINLEY: It is not in that?

The CHAIRMAN: No.

Mr. BOTHWELL: It is contained in the first page of last day's proceedings, (a) Condensed balance sheets of the Canadian National Railways and of the Dominion Government, as at December 31, 1935, and March 31, 1936; (b) A consolidated balance sheet of the Dominion Government, as at March 31, 1936, including the Canadian National Railways.

Mr. KINLEY: Would it not be better for the members to read it and see what there is in it, and get a copy for the next meeting?

The CHAIRMAN: I will ask you to read it, Mr. Clarke.

Mr. CLARKE: It is pretty hard to read.

Mr. WALSH: It would be a waste of time to read it. If the members get copies, each member can read it for himself. It is the annual condensed balance sheet before and after.

The CHAIRMAN: I do not see why it should not go into the minutes of proceedings.

Mr. CLARKE: It is hard to read and make anything out of it.

Hon. Mr. STEWART: No, you could not make anything out of it at all.

Mr. BOTHWELL: I move that it be included in the minutes.

Mr. WALSH: I second that.

Carried.

(See appendix C)

Mr. KINLEY: Before we leave the minutes, I should like to make a correction in number 2. On page 33 I am reported as referring to Bill No. 12. I referred to Bill B.

The CHAIRMAN: I have already given instructions for the clerk to change that. Gentlemen, the first minutes of proceedings were badly printed, and I want the authority of the committee to empower me to make the necessary changes. Some paragraphs have been put in the wrong place—there is not any sense to it; and there is a part of the statement of the minister which has been eliminated from the last proceedings. I want your authority to make the necessary changes.

Mr. WALSH: I would move that the chairman be given the privilege of re-editing the first issue.

The CHAIRMAN: The first and fourth.

Mr. WALSH: The first and fourth issue.

The CHAIRMAN: Yes, and the second, too. I have an amendment there. Carried.

Hon. Mr. STEWART: Might I ask if any of the officials have prepared the statement referred to on page 105 of the minutes of our last meeting? You will recall that I asked that a statement be prepared which would indicate the effect upon the figures in the existing balance sheet of this legislation had it been in effect.

Mr. McLAREN: We have had that statement prepared.

The CHAIRMAN: Have you a sufficient number of copies for members of the committee?

Mr. McLAREN: Yes, there is a sufficient number of copies.

The CHAIRMAN: Do you wish it read, or shall it just be placed in the record?

Hon. Mr. STEWART: I think perhaps it had better be read and then it will appear in our record also.

The CHAIRMAN: I will ask Mr. McLaren to read it then.

Mr. McLAREN: This is the statement:—

PROFIT AND LOSS STATEMENT

Re-stated on the Basis of Proposed Legislation—Bill 12

Credits:	Year—1935
Credits from retired Road and Equipment..	\$ 24,631 40
Unrefundable Overcharges..	3,301 90
Donations..	30,328 73
Miscellaneous Credits..	583,533 19
Total Credits..	\$ 641,795 22
Debits:	
Surplus appropriated for Investment in Physical Property..	\$ 2,064 34
Debt Discount extinguished through surplus..	22,579 91
Miscellaneous appropriations of surplus..	27,681 07
Debits for retired Road and Equipment..	29,111,717 21
Delayed Income Debits..	48,295 61
Miscellaneous Debits..	1,938,650 64
Total Debits..	\$31,095,626 64
Net Debit..	\$30,453,831 42
Net Income <i>Deficit</i> brought forward..	48,878,181 67
System Net <i>Loss</i>	\$79,332,013 09
Deduct: Contributions for Deficits from the Government—	
Canadian National Railways..	\$41,795,757 24
Eastern Lines..	5,265,373 20
P.E.I. Car Ferry & Terminals..	360,334 36
	47,421,464 80
Change in Proprietor's Equity, representing Capital losses and other charges not contributed by the Dominion Government in cash..	\$31,910,548 29
<i>Dominion Government-Proprietor's Equity</i>	
Balance at the beginning of the year.. . . . .	.....
Change during the year, as above..	31,910,548 00
Balance at end of year, carried to Balance Sheet.. . . . .	.....

Hon. Mr. STEWART: We follow this in conjunction with page 18 of the statement of last year, do we not?

The CHAIRMAN: It is complete by itself.

Hon. Mr. STEWART: Yes, but it is taken from page 18 of last year's report.

Mr. SMART: That is right, page 18 of the annual report.

The CHAIRMAN: Go ahead, Mr. McLaren.

Mr. McLAREN: On page 18 of last year's report there is a profit and loss statement brought down as under the accounting in effect in 1935. I was asked to have that statement recast to bring it into accord with the proposed legislation, and the changes that are made in the statement shown on page 18 are: First, the elimination of interest on Dominion government loans of \$35,949,576.70; the total \$115,281,689.79 has been corrected to \$79,332,013.09; the item \$47,421,464.80, representing contributions for deficits by the government remains. The Eastern Lines interest on government loans \$626,413.21 has been eliminated; there has also been eliminated the wording, "Change during year in profit and loss account" with the amount of \$67,233,811.78; there has been added, "Change in proprietor's equity representing capital losses and other charges not contributed by the Dominion government in cash" \$31,910,548.29; there has been deleted the words, "balance at January 1st," and total of \$789,040,675.42; there has also been deleted from the report, "Balance at December 31st" \$856,274,487.20; there has been added to this statement, "Dominion government-proprietor's equity," "Balance at the beginning of the year," "Change during the year, as above" \$31,910,548; "Balance at end of year, carried to balance sheet."

Hon. Mr. STEWART: That is very complete, except those two items at the bottom there.

Mr. McLAREN: "Balance at the beginning of the year," you mean?

Hon. Mr. STEWART: I quite understand, if it were just starting that probably would not be there.

Mr. SMART: Yes, it will be there; that will be the value of the Dominion government equity—\$688,000,000 odd.

Hon. Mr. STEWART: I was wondering why we should not have these figures in there where they are located at the present time.

Mr. McLAREN: The figures in the bill are as of January 1, 1936, and we did not put them in there. But, just to give you an illustration, there will be a balance, and at the commencement of 1936 that balance would be as shown on appendix 5, page 13 of the bill, \$690,573,400.32; that has been corrected to \$688,000,000 odd.

Hon. Mr. STEWART: Yes. That clears up that item. Then, with respect to the balance at the end of the year carried to the balance sheet; what would that be?

Mr. McLAREN: That would be carried to your balance sheet under the heading of proprietor's equity.

Hon. Mr. STEWART: And what would the figures be?

Mr. McLAREN: If you were using that figure of \$688,000,000 odd it would be reduced by \$31,000,000; that would make it \$657,000,000.

Hon. Mr. STEWART: Yes. I think that completes the statement.

Mr. McLAREN: It operates just as though the profit and loss account were still there.

Mr. KINLEY: Is the proprietor's equity represented by the Intercolonial?

Mr. MacLAREN: Yes, there is \$388,290,294.40 in that for Dominion government capital expenditures for Canadian government railways.

Mr. KINLEY: But you include that in proprietor's equity?

Mr. McLAREN: Yes.

Mr. SMART: You will find a statement of that on page 13-A of the bill.

The CHAIRMAN: When we left off the other day we were on clause 8 of the bill, and it was proposed to substitute a new clause for that, reading as follows:—

ADJUSTMENT OF CERTAIN ACCOUNTS AFFECTING GOVERNMENT RAILWAYS

8. Notwithstanding any provision of the Consolidated Revenue and Audit Act 1931 or any other act, the minister may, in order to adjust certain differences between the public accounts of Canada and the accounts of the National railway system relative to the government railways and the Hudson Bay railway, and in order to give effect to the surrender, exchange or abandonment of securities or claims authorized by this act, make the adjustments in the public accounts of Canada which are set out in schedule "B" of this act.

That is the proposed change.

Mr. WALSH: I regret, of course, that I was unable to be present at the meeting on Friday when this amendment was first introduced. I want to thank the Chairman and the committee for the privilege accorded me of submitting these four questions, and for the answers to them which were received this morning, and which I hope may be of some value in a further study of the various clauses of the bill, with particular reference to the effect that it might have on the balance sheet of the Canadian National System. In connection with

this amendment I would like to raise three points, and my first point is this: Has this committee as such the power to deal with this amendment? I have in my hand report No. 4 of the minutes of proceedings and evidence before this committee on Friday, March 5, 1937. Mr. Beaubien asked this question:—

Do I understand that this bill when it is passed in the form in which you wish it amended will give instructions to the Department of Finance to adjust the public accounts according to the amendment. Is that the idea?

Hon. Mr. HOWE: Correct.

Mr. BEAUBIEN: Have we power?

Mr. HOWE: Yes, parliament has that power.

My contention is that Mr. Howe was correct, parliament has that power. And, we are not parliament, we are merely a committee of parliament charged with the necessity of reviewing the various clauses of this bill and studying the principles underlying this bill and reporting back to parliament. I want to raise that point, and I raise it seriously; and I think Mr. Beaubien raised it with serious doubt in his own mind as to whether this committee really had the power to do what it is proposed to do in that amendment. Now, that amendment as we all know transfers from the non-active assets of the Dominion of Canada \$353,244,349 and places that in the consolidated account. As the members of this committee know, since 1932 it has been the principle of the railway to have any deficit placed in the supplementary estimates and voted by parliament. The \$353,000,000 odd represents in large measure the accumulated deficits previous to 1932. If it is necessary for the Minister of Finance to put in the supplementary estimates each year the amount of the deficit of the Canadian National Railways and have that voted by parliament surely there is all the more reason to expect the Minister of Finance to put in the supplementary estimates this year an amount equivalent to the \$353,000,000 odd that we propose taking out of the non-active assets of the Dominion of Canada and placing in the consolidated fund. It is for that reason, Mr. Chairman, that I contend that this committee has not the power to place an amendment in that bill that makes possible such a fundamental change in the structure of the public accounts of Canada as represented in their financial statements.

The CHAIRMAN: On that very point I would like to remind you of this; that insofar as this Committee is concerned the bill was referred to this committee for examination and report; and that is all we can possibly do, report back to the house what action we advise and what advice we are giving; then it is up to the house and to parliament to decide for themselves what the final action should be. To that extent I do not think that we are exceeding our powers in examining the bill, or even in accepting this amendment, which will be reported to the house if it carries. It will be a matter for the house to decide what disposition will be made of the amendment.

Mr. HEAPS: As far as I understand the matter of bills in committee I believe that we are entitled to make any changes that may to use seem desirable, and so report to the house.

The CHAIRMAN: Surely.

Mr. WALSH: We are entitled to make any changes; but this is what I consider a fundamental change, and it is a change that can be made only through a specific vote of parliament as represented in supplementary estimates of the Minister of Finance. As members of the committee know, this year we are voting a sum of \$35,000,000 representing the deficit of the Canadian National Railway system. That is being voted this year in the supplementary estimates. This amount of \$353,000,000 odd represents similar amounts previous to the year

1932. If it is logical to vote \$35,000,000 this year in the supplementary estimates as presented by the Minister of Finance is it not equally logical to have the sum of \$353,000,000 odd voted in the same way this year showing that it represents almost identically—not altogether, but almost identically—the same sort of funds that are being voted in the \$35,000,000?

The CHAIRMAN: But, Mr. Walsh, might I remind you that these amounts to which you refer have already been voted by parliament in each of the different years, and under the same procedure as will be followed this year.

Mr. WALSH: No, the \$35,000,000 has not been voted annually; it has been placed—not voted—placed in the non-active assets of the Dominion of Canada; and you are proposing to take it out of there where it was placed by parliament and put it into the consolidated fund.

The CHAIRMAN: I am not proposing.

Mr. WALSH: The minister is proposing it.

The CHAIRMAN: No, he is not.

Mr. WALSH: This bill is proposing it, then.

Mr. KINLEY: Is not that the intent of the bill?

Mr. WALSH: We are doing what parliament should do.

The CHAIRMAN: We are simply reporting to parliament that it should be done; we are not doing it.

Mr. KINLEY: No, it is in the bill.

Mr. YOUNG: This committee has no power to do anything except to examine this bill, to amend it if it chooses and to recommend to parliament; parliament has the power, the absolute authority. That is all we can do.

The CHAIRMAN: That is all.

Mr. MAYBANK: What Mr. Walsh is attempting to say is that there is another \$353,000,000 odd—whatever the figure is—which corresponds to the annual deficits which are voted annually; and I think he is entirely mistaken on that, because year after year parliament has voted on these matters.

Mr. WALSH: I take exception to that.

Mr. YOUNG: You can take all the exception you like, I am going to make my statement.

Mr. WALSH: We have not been voting it; what we did do was to vote to place those amounts in the non-active assets of the Dominion of Canada.

Mr. YOUNG: What we are doing now is to change the bookkeeping arrangement; no more and no less, in order to give a better picture of the situation to the country at large.

Mr. WALSH: Now, Mr. Chairman, apparently the consensus of opinion in this committee is that we have the power to recommend. Personally I take exception to that, just as Mr. Beaubien did at our first meeting.

Mr. BEAUBIEN: I doubted myself that this committee had the power to instruct the Department of Finance to do anything in regard to the financial statement. While I still have some doubt, in the light of additional information which has been made available I am inclined to accept the minister's statement that we have the power to consider this amendment; and I am informed that parliament has delegated its power to this committee to examine into and report upon all phases of this bill.

The CHAIRMAN: Certainly.

Mr. BEAUBIEN: And that we are required to make a report back to parliament, and then when we get back into the house parliament has the absolute right to do anything it chooses to in the matter.

Mr. WALSH: But parliament did not delegate to us the power to take out of the assets of the Dominion of Canada a large sum of money and put it in the consolidated debt of Canada?

Mr. BEAUBIEN: But it has given us the power to do what we like with this bill and report back to the house; if they do not want to accept it they can throw it out.

Mr. WALSH: If that is the opinion of the committee it is not my opinion, and I would like to make this further comment: in my estimation this bill was referred to this committee, and in referring this bill to this committee the title of the bill was, "An Act to provide for revision of the accounting set-up of the Canadian National Railway system;" and if you go further into the bill, section 8 itself—the section which we are particularly discussing this morning and which is to be amended—is headed, "Adjustment of certain accounts affecting government railways." Can any member of this committee suggest to me that any power has been delegated to this committee to adjust the accounts of the Dominion of Canada under the heading of, "an accounting set-up of the Canadian National Railway system." Now, my contention is still that we have not got power to do that. The bill is quite clear and distinct; and I should like to read in that connection from page 64 of issue No. 3 of the minutes of proceedings and evidence of this committee, where reference is made to the very point I am raising; that in this amendment we are going outside of the original purposes of this bill and of the underlying principle of this bill, and we are changing in toto the very principle on which this bill was built up, and the principle that received first and second reading in the house before this bill was referred to this committee.

The CHAIRMAN: Mr. Walsh, in order that we may be sure that you are not making any mistake, if you will refer to schedule B of the bill which schedule forms a part of the bill—not the appendices—you will find there indicated an adjustment in the public accounts of \$660,000,000 and some odd, being part of the \$1,596,000,000 odd, which is all included in the public debt; therefore, it forms a part of the reference to this committee.

Mr. HEAPS: When parliament passed the resolution referring this bill to this committee it was passed to us to consider and report.

The CHAIRMAN: Exactly.

Mr. HEAPS: And we have the right to delete from, add to, change and so on and if we wish to adopt something definite we have the right to do so. I think Mr. Walsh is rather confusing the issue, as a matter of fact.

Mr. WALSH: I am not confusing the issue. What I contend, Mr. Chairman, is that we have no power in this committee to change the principle of a bill. We have the power to amend, but not to change the principle on which this bill was built up and on which it was discussed in parliament and on which it received first and second reading.

The CHAIRMAN: We are all agreed with you, we have not the power to change the principle; parliament has that power, but we have the power to consider the bill and report back our findings.

Mr. WALSH: I claim that through this amendment you are changing the principle of the bill; and in support of my contention I would read the following evidence which appears on page 64 of the report of our proceedings where Mr. Beaubien asks:—

Mr. BEAUBIEN: When those amounts you have mentioned were absorbed in the public debt of Canada they still continued to be shown on the annual report of the Canadian National Railways, did they?

Dr. CLARKE: Yes.

Mr. VIEN: As an asset.

Dr. CLARKE: As a liability of the Canadian National Railways.

Now, I want you to notice this in particular:—

Dr. CLARKE: It was not writing down their value, it was transferring them——

He is referring to what was done by a former Finance Minister, I think Sir Henry Drayton:—

It was not writing down their value; it was transferring them from the category of active assets down into the net debt figure.

Then, further on he says:—

Now, that was the start of the procedure.

Mr. BEAUBIEN: That is all we are doing to-day.

Mr. WALSH: Then it continues:—

I think I am bound to say that the reasons which Sir Henry Drayton gave at that time for taking the action described are reasons which would appeal to the finance department at any time. They represent the attitude which we take to the treatment of assets in the public accounts which are not realizable, and are not paying any interest. We try to get them down into that lower category. We can do that on instructions from the Minister of Finance. We cannot——

I want you to notice this:—

We cannot actually write them off unless parliamentary authority is given for such writing off.

Mr. MAYBANK: May I ask you a question just at that point: What does that word “we” mean; does that mean the departmental officials, or this committee? It is important to determine just what that pronoun means.

Mr. WALSH: You would have to ask Dr. Clarke that.

Mr. MAYBANK: I think we should pursue that a little further at this stage; I think we should know what that word “we” as it is used there applies to.

Mr. CLARKE: It refers to the department.

The CHAIRMAN: Dr. Clarke says that in that instance the word “we” refers to his department.

Mr. WALSH: He says, “We cannot actually write them off unless parliamentary authority is given for such writing off.”

The CHAIRMAN: He is speaking for the Department of Finance.

Mr. WALSH: Then, further down on the next page I read:—

Now, that is the first class of items included in the net debt. The second class is what we call “non-active assets”; usually items which were originally up at the top of this page in the active assets sections of the balance sheet but which have been transferred in accordance with the procedure followed by Sir Henry Drayton in 1920.

And I want you to notice this:—

They have been transferred from active assets down into the net debt section of the balance sheet.

He does not mention transferring any items on the authority of any other body except parliament from assets to the consolidated debt; and that is exactly what we are doing in connection with this bill, we are transferring them from the asset section to the consolidated debt section; and I claim that this amendment goes outside of the power delegated to this committee by parliament, and

I feel that we should go back to parliament and ask them for instruction, to see if we are within our rights in handling an important matter of this nature in which we are writing off assets of the Dominion of Canada to the extent of over three hundred million dollars and placing those assets into the consolidated fund of Canada. In doing that we are doing something of a very serious nature.

Mr. BEAUBIEN: We are not doing it. We are merely reporting back to parliament.

Mr. WALSH: We are recommending to parliament that it should be done. I think that parliament and parliament alone has the power to ask this committee to consider the bill with that feature embodied, and that feature was not embodied in the original bill.

Mr. MAYBANK: By that do you mean that we should go back to parliament for special instruction?

The CHAIRMAN: That is all included in schedule B of the bill. I do not think you could have taken the time to read that schedule.

Mr. WALSH: Do you suggest that I have not taken the trouble? I do not think any member of this committee can suggest that for one moment—that I have not taken the trouble to study this matter.

The CHAIRMAN: If that is the case then all I can suggest is that you must have over-looked this schedule.

Mr. WALSH: I started from scratch, or back of scratch, and any information I have has been secured through hard blind plugging, and it was not all done by daylight; so, you cannot suggest that I have not read very minutely every part of the bill and the appendices at the back. I have given careful consideration to it all.

The CHAIRMAN: Schedule B forms a part of the bill itself.

Mr. WALSH: I cannot conceive of schedule B as being within the original intention of this bill, in accordance with the amendment that is brought forward.

Mr. MAYBANK: I think he ought to reconstitute that sentence with "we" in it.

The CHAIRMAN: "We" means the Department of Finance in this committee, so far as Dr. Clarke and this statement are concerned.

Mr. WALSH: That was the second point I wanted to make on this amendment; that in reality it is not an amendment to the bill, but rather it is an entirely new and distinct clause that we have here. I would like to go on further to say that these losses have not been voted by parliament; that is, the losses that are included in the \$353,000,000 and which are now being made a charge on the consolidated fund. I am not sure whether the minister should not provide in his estimates for the amount in the same way as votes are being made currently for similar deficits; in other words, we are here voting an amount almost equal to the total ordinary expenditure of the Dominion of Canada, which this year was over \$372,000,000; we are voting from the assets into the consolidated fund an amount that is equal to ten times the estimated Canadian National cash deficits for 1937. So far as I can see we have no justification for this. The justification for the bill has been predicated on the idea that it was necessary to bring the railway accounts into relation with the public accounts; but there is now inserted into the bill a provision for altering the public accounts in line with the railway accounts. That is the point I would like to emphasize; that our original instructions were, and the

original intention of this bill was, to bring railway accounts into conformity with the accounts of the Dominion of Canada and we have reversed the process, instead of doing that we are bringing the accounts of the Dominion of Canada into conformity with the accounts of the railway, which we were not instructed to do, and which speaking for myself I feel is not good practice insofar as accountancy is concerned.

Mr. HEAPS: To what extent does this change anything in the bill itself?

Mr. WALSH: The amendment to section 8 of the bill would not appear to be an amendment in a clause of the bill but rather the insertion of an additional item of a new idea. I would not want to think that the minister had purposely amended this very important section of the bill with the intention of inserting anything new by way of principle. I am sorry that the minister is not here this morning. I do not want the minister to think that I am imputing to him any wrong motive when I am criticizing the insertion of this amendment. I do not want him for one moment to think that I am suggesting that he has deliberately left this section out of the bill and then has introduced it while in committee in the form of an amendment in order to accomplish some desired end.

Mr. BEAUBIEN: Right at that point might I remind you that the minister brought that amendment in for the sole purpose of satisfying certain views held by members of this committee.

Mr. WALSH: The views expressed by members of this committee as the bill was originally introduced was for the purpose of emphasizing the fact that the balance sheet of the Canadian National Railways would not show a complete picture of the Canadian National Railway system as it should be shown on any logical balance sheet.

Mr. BEAUBIEN: The view of the committee was that it should be shown somewhere.

Mr. WALSH: I think the witnesses we had here representing the Canadian Chambers of Commerce were contending for the same thing. I think they contended fairly that this information should be shown in the balance sheet of the Canadian National Railways instead of being hidden away in the balance sheet of the Dominion of Canada.

The CHAIRMAN: My understanding as chairman of the committee was this, that the witnesses wanted to have a true picture of the situation and that it was immaterial to them where it appeared, in the public accounts or in the accounts of the Canadian National Railway. I would like to have an understanding on that.

Mr. BEAUBIEN: Mr. Chairman, I rise to a point of order: The question as to whether that statement should be shown in the report of the Canadian National Railways or in the public accounts was settled by a motion which was passed by this committee on motion by Mr. Bothwell, seconded by myself, to the effect that the amount in future should not be included in the Canadian National Railways annual report.

Mr. WALSH: That it should not be?

Mr. BEAUBIEN: Yes.

Mr. WALSH: And you say that motion was moved by Mr. Bothwell and seconded by—?

Mr. BEAUBIEN: Seconded by myself.

Mr. WALSH: Both Liberal members, your contention is—

The CHAIRMAN: That is unfair.

Mr. WALSH: I consider it is fair—

The CHAIRMAN: This committee has not been dabbling in politics so far. Why begin now?

Mr. BEAUBIEN: My point of order—and I still insist on it—is that the question of whether that should be included in the Canadian National Railways annual report was settled by that motion being adopted by a majority of this committee. In fact, it was unanimous, as you will remember, Mr. Chairman.

The CHAIRMAN: Yes.

Mr. HEAPS: I think it is most unfair—and I am not a liberal member—for any member of this house to start bringing in “liberal member” or “conservative member” to this committee.

The CHAIRMAN: I think that statement should be withdrawn.

Mr. HEAPS: He does not need to withdraw it. It is a fact, anyhow. It is not good order for the work of this committee, if, across the table of the committee room, we will say two liberal members move a certain resolution or motion and two conservative members oppose them, on some point. I think if you start bringing in politics to the Canadian National Railways, it is not going to be good for the railways.

Mr. WALSH: I am not bringing it before the Canadian National Railways. I am bringing it before the members of this committee. I feel that this committee has committed a grave error, in my judgment, in allowing the Canadian National balance sheet to be made out in the form which they propose, which will not show to the public of Canada who are particularly interested, the true picture of that railway, but which they will have to search for in the balance sheet of the Dominion of Canada or somewhere else where it might possibly be shown in piece-meal style.

Mr. BEAUBIEN: I still insist that Mr. Walsh is out of order, that question having been settled by motion of this committee.

Mr. WALSH: I will pass on to another point, then, if I am out of order. I do not want to be out of order as far as the committee is concerned. Another point I would like to make is this. The minister has seen fit to introduce into this committee an amendment involving over 353 million dollars. Apparently that item was not looked after in the original bill. It was overlooked; and the minister makes up for that oversight on the part of those who framed the bill by introducing this amendment which looks after 353 million dollars. Now, Mr. Chairman, if that important item has been overlooked in the framing of this bill, how much more might have been overlooked if we more carefully diagnosed, studied, and considered this bill? I am coming now to the point which I raised at the beginning of this committee.

The CHAIRMAN: Is that absolutely fair, Mr. Walsh? You must remember that at the discussion which took place in this committee here, we had the chairman of the Canadian Chamber of Commerce who came here as a witness. While he was talking, it suddenly struck the minister that the only question involved was: Should those accounts appear in the public accounts or in the balance sheet of the Canadian National Railways? He drafted a proposed amendment. This draft was handed to me. I refused to consider it as it stood there, and asked that Dr. Clarke who is deputy minister of finance, should have time to consult the minister, and the legal officers of his department, and bring us the proper wording for this amendment. That is all the minister has done; it is after Dr. Clarke had gone over this amendment and brought it back to council in proper form. Then it was submitted to this committee for consideration. Those are the true facts.

Mr. WALSH: Dr. Clarke then, I presume, contends that there never was in the original drafting of this bill a clause somewhat similar in character to the clause that has been brought in as an amendment to section 8?

Mr. CLARKE: The original clause 8, as it stands, is somewhat similar. It provides for certain adjustments—the adjustment of certain differences between the public accounts of Canada and the accounts of the Canadian National Railways; and schedule B refers to the bill in the original form, refers to the adjustments that are to be made in the public accounts of Canada as well as in the railways accounts. The amendment amplifies section 8. It expands it to cover the adjustments that should take place—all the adjustments that should take place in the public accounts as well as the Canadian National Railways accounts. That follows the fact that you are putting into the public accounts, in accordance with the other amendment, a complete statement as an appendix, showing the total cost of the Canadian National Railways to the government—to the people of Canada.

Mr. WALSH: The point I was trying to make is this: I know when a bill is being framed and drawn, it is drawn and considered many times before it reaches its final form. Now do I understand correctly that there was a proposal at one time to insert a similar clause in the original bill and it had been withdrawn?

Mr. CLARKE: No.

Mr. WALSH: Never. I want to lead up then to this final point. I have always contended, as the chairman knows, that we have not had the expert advice to which I felt this committee was entitled.

Mr. HEAPS: That is a reflection on the officers who have given us advice, Mr. Chairman. I do not think it is fair for Mr. Walsh to make that statement here.

The CHAIRMAN: I do not think Mr. Walsh means it in that way.

Mr. HEAPS: What he should say, and what he probably means, is that he has not had the advice that he would like to have.

The CHAIRMAN: Yes.

Mr. WALSH: I want the advice of an expert accountant who is not in any way biased before he comes to the committee.

The CHAIRMAN: That is not fair.

Mr. WALSH: I have every respect for Dr. Clarke.

Mr. YOUNG: I rise to a point of order. There is more than one member of the committee here. Mr. Walsh is deliberately—and I say deliberately—time and time again inferring that some people who have sought to do this thing are biased, prejudiced and want to get something into this bill which should not exist. I claim, Mr. Chairman, that there is no man biased or prejudiced, but every man here is trying to do the thing that should be reasonably done with respect to the Canadian National Railways and the public accounts of Canada. In order that there should be no misapprehension on the part of any one, it was agreed—

Mr. WALSH: He is making a speech. He is not stating a point of order, Mr. Chairman.

Mr. YOUNG: I think I have the right to make a speech. You have been making a speech all morning.

Mr. WALSH: I want to complete my speech. You can speak for the rest of the day.

Mr. YOUNG: In order to have the whole picture before us, it was agreed that a complete picture be put in the public accounts, so that any one with an inquiring mind might have some place to go where they would have that before them. It is an attempt to place all this information in proper form in the public accounts so that a clear picture will be there of the railways for all time and for all people.

Mr. MAYBANK: Mr. Walsh has said when he finishes there will still be the rest of the day. He suggests there will be some time left. I suggest that he be allowed to continue.

Mr. WALSH: And finish within reasonable time. I suggest that myself, because I am anxious to get through, and I am on my last point now. When I raise this point of having this expert advice, I cast no reflection on any member of the civil service nor any member of the accounting staff of the Canadian National Railways. When I suggest that they are biased, what I mean by that is that they are and have been interested in the developments that have taken place leading to the introduction of this bill into parliament and the amendment that has been advanced by the Minister of Transport. That is the only extent to which I feel they are biased. What I want is to get someone here who has had nothing to do with the bill in its original form, so that he can tell me that he is satisfied that this is a proper method of accounting. When I made this suggestion before, the minister suggested that it was a matter of government policy. Now, I feel that technical accounting matters such as proprietor's equity, securities trust, and so-called duplication of debt, conversion of stock liability from stated values to no par values and other questions of this kind, are not matters of government policy, but are matters of accountancy; and on that I would like to have some expert advice from someone who has had absolutely nothing to do with the original draft nor the draft of the amendment in connection with the bill that we are now considering, in order that we, as a committee, can ask him just a half dozen very direct questions that would lead to very direct answers, so that we would all feel satisfied that the accounting set-up proposed through this bill and this amendment is in conformity with accepted practices among railway accountants. That is all I am asking for.

I just wanted to say in conclusion that the points that I have tried to make are: Firstly, that this committee has not power to deal with the amendment—and apparently you have settled that matter; secondly, that the amendment is in reality not an amendment, but is a new section introduced into the bill and changing completely the original intent and purpose of this bill; and thirdly, that this committee, or at least some members of this committee, are not in a position at the present time to pass judgment on the accounting changes involved without the assistance of an outside accountant, preferably one who has had practical experience in railway accounting, and one who would be acceptable to the Canadian Chamber of Commerce and to the Minister of Transport himself. I am not asking for any biased opinion to be given to this committee. I am not asking for someone named or suggested by myself to come to this committee; I am asking for someone to come to this committee who is competent to pass judgment, someone who has the confidence of the Canadian Chamber of Commerce and at the same time the confidence of the Minister of Transport. Surely, I am not asking for too much. I am just asking for that opinion. It will only involve a half hour of the time of this committee in order to get that advice; and then we would be able to proceed, acting on what we believed was the best advice, the advice of the accountants of the Canadian National Railways, the advice of those directly in charge in the Department of Finance, and the advice of a person who has had no previous connection with this bill. That is the point on which I am contending; and I am asking the chairman if he would agree, and

this committee if they would agree to allowing the Minister of Transport to bring such a person before this committee in order to get the benefit of his advice and judgment.

The CHAIRMAN: Well, gentlemen, you have heard Mr. Walsh. I think the main part of your objections have already been answered. In your absence at the last meeting of this committee, certain questions there appear as coming from you, which have been answered this morning. I am in the hands of the committee.

Mr. MAYBANK: There is not any motion yet before the committee.

Hon. Mr. STEWART: There is nothing before it up to this point. Mr. Chairman, apparently there is a substantial change in the provisions of section 8 of the bill as introduced. The bill, as Mr. Walsh has properly said—Bill No. 12—is entitled “An Act to provide for revision of the accounting set-up of the Canadian National Railway System.” Then “Minister” is defined, in the interpretation clause, to mean the Minister of Finance. Section 8, the one which stood over and with which we are dealing, and in connection with which an amendment has been proposed, reads as follows:—

Notwithstanding any provision of The Consolidated Revenue and Audit Act, 1931, or any other Act, the minister may adjust the certain current differences between the Public Accounts of Canada and the accounts of the National Railway System relative to the Government Railways and the Hudson Bay Railway, in accordance with the terms of Schedule B of this Act.

One would think that was pretty wide, giving the Minister of Finance that power.

Mr. BEAUBIEN: Does “Minister” mean Minister of Finance there in clause 8?

Hon. Mr. STEWART: Yes. The interpretation clause will show you that “Minister” means “Minister of Finance”.

The CHAIRMAN: Quite right.

Hon. Mr. STEWART: In section 2 of the bill.

Mr. BEAUBIEN: So that, as I understand it, in this clause 8 we are instructing the Minister of Finance to do certain things.

Mr. MAYBANK: Empowering him to do certain things.

Hon. Mr. STEWART: What I am pointing out is that this is a very wide provision, and it would seem to give the minister in itself power to do almost anything that is necessary in connection with an adjustment of these accounts between Canada and the Canadian National Railways System.

Mr. BEAUBIEN: I do not want to interrupt, but may I ask a question?

Hon. Mr. STEWART: It is all right.

Mr. BEAUBIEN: The amendment that the minister has proposed and which the chairman read this morning to clause 8 of the bill, does not really change the principle of the bill. It simply gives further instruction or empowers the Minister of Finance to do more than clause 8 instructs him to do or gives him power to do in its present form, does it not?

Hon. Mr. STEWART: It gives the minister power in accordance with the terms of schedule B of this act. Now we turn to schedule B, and I would like to ask, Mr. Chairman; if this amendment is carried, what changes would take place in schedule B—because that was determined by the house.

The CHAIRMAN: Schedule B is printed in the minutes itself.

Hon. Mr. STEWART: Exactly. Schedule B is in the bill. But I want to know what changes, if any, would be made in schedule B if this amendment is carried, or how much farther it authorizes the Minister of Finance to go than is set out in the present schedule.

The CHAIRMAN: If you look at the schedule,—on page 76, the new schedule is there printed in full, which makes the changes contemplated by this amendment.

Hon. Mr. STEWART: What page?

The CHAIRMAN: Pages 76 and 77 of the printed evidence, the minutes of proceedings.

Hon. Mr. STEWART: I have not got that.

The CHAIRMAN: Oh, yes.

Mr. MAYBANK: I have it here. Take it from my place.

Hon. Mr. STEWART: I think possibly I have it. I spoke too quickly. You are right, Mr. Chairman; it appears on pages 76 and 77. I will not take the time now to look at it and see the changes. Apparently, there are some substantial changes. The only other observation I have to make is that the usual way of dealing with a matter of this kind is in the Department of Finance and then reference is made to it in the budget speech of the Minister of Finance. I think there is some reference this year to a transfer from active assets to non-active assets. That is the way it is usually dealt with, in the review of the annual statement of the dominion, and any action of that kind is reported by the minister and dealt with in his budget speech. I must say that I do not quite understand the effect of the amendment.

The CHAIRMAN: Mr. Stewart, all the changes in the schedule which forms part of the bill are contained on page 77, starting from "Elimination of the present schedule 'railway accounts'" down to the bottom of the page.

Hon. Mr. STEWART: I would like to know just in what respect, apart from the detailed figures, it changes the principle of the section. It apparently is the same down to the item of \$300,616,208.35. From there down it is changed. It seems to depart from the schedule set forth in the bill, and to produce a different result.

Mr. MAYBANK: Have you a copy there of the changed number 8?

The CHAIRMAN: You have it in your evidence, schedule B.

Hon. Mr. STEWART: Page 77.

Mr. MAYBANK: Well, it is only designed to put certain safeguards around the manner in which the minister will act.

Hon. Mr. STEWART: I do not quite understand the effect of it, or why it was necessary to change the section at all. It would seem to be very wide, and to authorize almost any change that the minister might choose to make.

Mr. MAYBANK: This sort of narrows it down.

Hon. Mr. STEWART: Well, I am not sure about that.

Mr. FRANKLIN: In the original draft as it is provided in the first bill, clause 20 gave the minister power to transfer all the claims of the government over to the National Railways, all the claims as set out in schedule B.

The CHAIRMAN: Yes.

Mr. FRANKLIN: We thought the implication of that clause, although it was not definitely stated, gave the Minister of Finance the authority to write those loans out of his books, because he had no claim. If you turn over all your claims and collateral to somebody, you have no future claims, have you?

Therefore, we thought that the authority implied in the bill for turning over those claims existing in the public accounts, would be sufficient. Mr. Clarke thought we had better be definite about it, so paragraph 8 was changed to make that definite statement.

Hon. Mr. STEWART: What is the objection to leaving it as it was and taking them in the public accounts?

Mr. FRANKLIN: Well, you could not.

Hon. Mr. STEWART: When you transferred the claims you could not still have a claim on the trust.

Mr. FRANKLIN: You would not have a claim as set up in the public accounts in this schedule B. What would you claim on, if you have not got your notes and collateral?

Hon. Mr. STEWART: You have got it against some person.

Mr. FRANKLIN: The claim is against the Securities Trust.

Hon. Mr. STEWART: Instead of against the Canadian National Railways. Is not the effect of this just to make this transfer and make the claims appear to be existing as against the Securities Trust instead of the Canadian National Railways?

Mr. FRANKLIN: From the old private corporations. The old claims originally held by the government are now held by the Securities Trust. In that way you perpetuate the claims of the government in case of any action of the old corporations. But we in turn in the Department of Finance, or in the government, hold in one case the stock of the National Railways, and on the other side the stock of the Securities Trust.

Hon. Mr. STEWART: In the public accounts will there appear, if this amendment carried, a claim as against this Securities Trust?

Mr. FRANKLIN: Exactly.

Hon. Mr. STEWART: For this amount?

Mr. FRANKLIN: For those figures.

Hon. Mr. STEWART: And it will be against the Trust instead of against the Canadian National Railways?

Mr. FRANKLIN: Exactly.

Hon. Mr. STEWART: It is all set out—

Mr. FRANKLIN: It is all set out in the appendix.

Mr. BEAUBIEN: Are we on clause 8?

The CHAIRMAN: Clause 8.

Mr. BEAUBIEN: And the amendment thereto?

The CHAIRMAN: And the amendment thereto.

Mr. BEAUBIEN: I find the amendment on page 76 of the proceedings of March 5. I asked the minister a question, and I understood from the minister that the history of all railways in Canada was going to be included in the public accounts—not only the Canadian National Railways or the railways which form part of the Canadian National Railways, but all railways—to show the public the exact picture of the donation or contribution of the Canadian people to our railway systems in Canada. I was given to understand, or at least I gathered from the remarks of the minister, that the whole picture would be put there, not only of the grants in aid but land grants and so on and so on forth.

The CHAIRMAN: There are three amendments.

Mr. BEAUBIEN: I cannot find anything in the minutes which the minister has proposed.

The CHAIRMAN: There are three amendments that are embodied in the minutes of proceedings. But the amendment itself, which is paragraph 24, is:—

The minister shall include annually as an appendix to the public accounts of Canada a statement showing the total assistance, whether by way of cash outlay, land grant, loan, advance, guarantee, or otherwise, given by the dominion to all railways.

Mr. BEAUBIEN: Where do you see that?

The CHAIRMAN: I am reading from the amendment itself. I cannot place my hand on it at the moment.

Mr. BEAUBIEN: I cannot see it in this. Is it in the schedule?

The CHAIRMAN: No, it appears in the minutes of proceedings.

Mr. BEAUBIEN: If it is there, it is all right.

Mr. FRANKLIN: It is an amendment to be added, number 24.

Mr. BEAUBIEN: It is an amendment added to section 24?

The CHAIRMAN: Yes.

Mr. BEAUBIEN: Is it added?

Mr. WALSH: It is what is going to be added, in section 24.

Mr. YOUNG: We are on section 8, Mr. Chairman. Let us not confuse matters.

The CHAIRMAN: We are dealing with section 8 at the present time.

Mr. WALSH: All right.

The CHAIRMAN: Mr. Walsh, do you want to make a formal motion?

Mr. HEAPS: Is there any motion?

Mr. WALSH: I just want to make a request. I do not want to put it in the form of a motion because I do not want to have it voted on. I put it in as a formal request to the chairman and the Minister of Transport to provide this committee with that type of expert which I have outlined.

Mr. HEAPS: How can you do such a thing, Mr. Chairman, without a formal motion, even if you wanted to? The Chairman has no power to do a thing of that kind. Mr. Walsh all morning has been complaining about the power we are supposed to be usurping. Now he is asking the chairman and the Minister of Railways to usurp the powers of this committee. I did not think Mr. Walsh would be as illogical as all that.

Mr. WALSH: Mr. Walsh is not illogical in his own mind.

The CHAIRMAN: Do I take it for granted that the opinion of the committee is that an expert should not appear before us?

Mr. HEAPS: There has got to be a formal motion.

Mr. YOUNG: I would put it, Mr. Chairman, that he is not required.

Mr. BEAUBIEN: The Canadian Government has a firm of auditors.

The CHAIRMAN: Yes.

Mr. BEAUBIEN: They are competent. We have the deputy minister of finance. I do not see why we should have this expert. I would like to help Mr. Walsh out but—

Mr. WALSH: Yes, I would like Mr. Beaubien to help me out. I would like to help the minister out. Here is what the minister says on page 79: "What is intended is to show the cost to the government; that is what everyone has been asking for, so far as I know, the cost of Canada's railways to the government. That is what I understand the witness from Montreal was asking, and that is what we are giving." I do not think he is. Then he goes on to say in the House of Commons on February 5, 1937, at page 653 of Hansard: "I believe a schedule can be set up that will preserve the historical record, and

this schedule can be made part of the annual report of the Canadian National Railways. That, perhaps, will satisfy the purpose as to a record." My contention is that that is exactly what this bill is not doing.

Mr. BEAUBIEN: Of course,—right there—the Minister of Transport is only one member of this committee. If you want that included—that was settled the other day by motion in this committee.

Mr. HEAPS: Mr. Chairman, it is quite evident what Mr. Walsh has in mind is for another set of auditors to take control of the accounts.

Mr. WALSH: No. One man to give an expert opinion.

Mr. HEAPS: No. You cannot have a man give a correct opinion unless he goes over the whole accounting system of the Canadian National Railways, goes over it carefully and then makes a report on the whole bill that is now before this committee, with all the appendices and everything that is attached to it. It cannot be done. What would be the result if the committee took an action of that kind? It would mean that it would be impossible for us to proceed one iota with the present bill. It would mean that this bill would have to go over until next year. Is that the intention of Mr. Walsh?

Mr. WALSH: No.

Mr. HEAPS: No. If it is not the intention, then he cannot have anyone go over these accounts. I know what it means for any public body to get a firm of accountants to come in and go over books. You cannot get rid of them. That would happen here, where they have got such a magnificent set of books, or where there would be such a magnificent opportunity to go through such a set of accounts as they would have in the Canadian National Railway accounts; I do not think you would get rid of any set of auditors until some time next year.

Mr. BEAUBIER: It would take them over two years.

Mr. HEAPS: Mr. Beaubier says it would take over two years.

Mr. KINLEY: And they would have to find something to justify themselves.

Mr. HEAPS: And they would charge something for the work they would do. I know what accountants charge. It would cost the government, I would think, to the extent of \$400 or \$500 a day to have those books gone into and have a report made along the lines that Mr. Walsh suggests. I think if he goes into this thing a little more carefully than he seems to have done up until now—although he has given a good deal of time to it—I think he will not perhaps be so insistent on having another firm of auditors go over the books of the Canadian National Railways. We had the firm of Clarkson and Dilworth go over the books last year. We have had the firm of Touche and Company go over them this year. They are pretty well-known accountants with a national and even international reputation. Then we have had our own Department of Finance go over this bill—I have no doubt together with the accountants and the Canadian National accountants themselves. Why should we have another one to clutter up things when that has been done? If you get so many experts going over the accounts, I think it will only make confusion worse confounded. I confess that a good many of these figures that have been thrown at me, millions and hundreds of millions of dollars, are a little hard for me to digest, and I think they are perhaps just as hard for other members of the committee as for myself, although there may be some who understand a little better than some of the rest of us. But, personally, I am quite content to allow the experts of the government and the Department of Finance, and the experts of the Canadian National Railways, to go over these things, and to accept their views in a matter of this kind; for, after all, what it does mean in the final analysis, is a new set-up in book-keeping for the Canadian National Railways. It is not going to affect the running of the railways. It

will give, I hope, a truer picture of the Canadian railways situation. If I thought for one moment that Mr. Walsh's suggestion would help in any way this committee or help the Canadian National Railway System or give to the people of this country a truer picture of what is taking place, I would be the first one to support it. It is because I do not think it would have that effect that I feel compelled to oppose this suggestion.

Mr. WALSH: I think Mr. Heaps has misunderstood me. I do not want an accountant to go over the books of the Canadian National Railways; all I want is his judgment of the procedure as an accounting method. I do not believe it is the correct accounting method to give us the picture that we want. I was reading in the *Gazette* this morning a letter in connection with the Canadian National bill. I will not read the letter, but its writer suggests exactly what I have in mind in respect to this bill.

Mr. HEAPS: Whose letter was it?

Mr. WALSH: He says, referring to the \$1,500,000,000 of liability now appearing on the railway balance sheet, it is informative to look at these accounts and to see what is the precise position; and then he provides a table which compares the Dominion balance sheet asset side with the railway balance sheet liability side; he shows loans and advances to Canadian government railways on both sides of this statement—the two items are \$645,527,456, and \$388,880,003—and then he shows unpaid interest on the railway balance sheet liability side at \$495,030,137.

Mr. HEAPS: Who writes that?

Mr. WALSH: This is written by Mr. A. L. A. Richardson—I do not know the writer from a load of hay. He is presuming to be an authority, and that is all I have been contending for in this committee; that what is being done with the consolidated fund of Canada and the balance sheet of the Dominion of Canada should be done with the balance sheet of the Canadian National Railways, not the balance sheet of the Dominion of Canada. That is all I am asking for, and this expert that I want is a man who can pass judgment on the principle of the thing. It should not take him more than half an hour to study the situation and form an opinion.

Mr. HEAPS: How long did you say?

Mr. WALSH: Half an hour—to tell us whether this is correct in principle or not.

Mr. HEAPS: If you have any expert who can pass judgment on matters of this kind in half an hour, I would like to see him.

Mr. YOUNG: Mr. Walsh seems rather insistent that that point should be settled. I think we as a committee have the right to settle it, so why not do it now?

Mr. WALSH: I think the chairman has already put it to the committee.

The CHAIRMAN: I will decide that point now. It is the consensus of opinion of members of this committee that no expert should appear before them; that they are satisfied with the information they have received from the officials who have appeared before them up to the present time.

Mr. WALSH: I will accept your ruling.

The CHAIRMAN: Shall we consider clause 8? Shall clause 8 carry?

Clause 8 agreed to.

Mr. WALSH: You have carried schedule B that goes with clause 8?

The CHAIRMAN: Yes, as amended.

Mr. WALSH: That deals with the \$353,000,000 odd?

The CHAIRMAN: Yes.

Mr. WALSH: Is it possible to get that item broken down into the various years showing when and how it was compiled; that is, so much in 1921, so much in 1922 and so on until we find out what the \$353,000,000 odd was made up of, and just how much of it was piled up each year—I imagine they piled up largely between 1921 and 1932?

The CHAIRMAN: Do you want that for your own information?

Mr. WALSH: I would like to have it for my own information, and I think members of the committee would also like to have it.

The CHAIRMAN: It will be supplied to each member of the committee as soon as it is prepared. It will be included in the minutes.

Mr. MAYBANK: That will be filed with the committee?

The CHAIRMAN: With the permission of the committee I will have it included in the minutes.

Mr. MAYBANK: That was what I was thinking.

The CHAIRMAN: With the unanimous consent of the committee, of course.

Mr. BEAUBIEN: We can decide that when we get the statement.

The CHAIRMAN: Shall clause 11 carry? — Carried.

The CHAIRMAN: We are now on section 13 of the bill. My recollection is that section 13 stood over at the request of Mr. Vien—"objects of corporation."

Shall the section carry? I am not just sure as to why Mr. Vien wanted this section to stand. I don't see any reason why it should not go through.

Section agreed to.

The CHAIRMAN: We now come to section 21.

Mr. BEAUBIEN: Section 21 was passed, but I think you have an amendment to section 22.

The CHAIRMAN: Yes, section 22 stood.

Mr. MAYBANK: I think section 22 was to become section 23.

The CHAIRMAN: Section 22 was held over because we had two amendments to be numbered 23 and 24. Section 22 should pass and then I will bring up section 23. Shall section 22 carry?

Section agreed to.

The CHAIRMAN: Section 23 dealt with a new clause to be inserted as section 23:—

The trustees of the securities trust shall present to parliament annually concurrently with the annual report of the Canadian National Railways through the Minister of Transport a balance sheet together with the report setting forth in a summary manner the transactions of the securities trust during each calendar year.

That was in compliance with a request by you, Mr. Walsh.

Hon. Mr. STEWART: I think that was to be made concurrently with the annual statement.

Mr. SMART: Yes, to be concurrent with the annual statement.

The CHAIRMAN: I did not have the proper copy before me. Shall the section carry?

Section agreed to.

The CHAIRMAN: Another section, section 24 was to be added. It reads:—

That the following new clause be inserted as clause 24.

Appendix to Public Accounts showing total assistance to all railways.

24. The minister shall include annually as an appendix to the public accounts of Canada a statement showing the total assistance, whether by way of cash outlay, land grant, loan, advance, guarantee

or otherwise, given by the Dominion to all railways. Such statement shall also show the manner in which such assistance has been dealt with in the public accounts of Canada.

Shall the section carry?

Mr. WALSH: Just how does the minister propose to do that? Can you give us a rough idea as to how it is going to look?

Mr. CLARKE: I think it will be a reasonably easy matter to go back over the records of the public accounts and summarize the assistance granted to the various railways in the form of cash subsidies.

Mr. WALSH: As to the amounts to the various railways, do you refer to the two railways?

Mr. CLARKE: To all the railways.

Mr. WALSH: Or do you refer to the original railways, the Canadian Northern, The Grand Trunk, the Intercolonial and so on?

Mr. CLARKE: I presume you would include the constituent items in the present system; there would be the two main railways, the Hudson Bay railway and some smaller parts of the system; you take all the various forms of assistance—cash grants, land grants, loans, subsidies and what not—and prepare a statement showing the various amounts given to each railway from time to time and your total. In the annual report of the Department of Railways and Canals you will find for each year a summary of the assistance given to the Canadian National Railways in a convenient form, and that may be extended when we put it in the public accounts.

Mr. WALSH: Is that not the three types of grants that might be made; one, in aid of construction; two, to meet deficits; and three, grants in aid of unemployment; does it define them in that way?

Mr. SMART: It includes everything.

Mr. WALSH: Can we see that from that report. I have not had time to look it up yet, but I just wanted to know if it can be found in that report.

Mr. SMART: Yes.

Hon. Mr. STEWART: Would not the Minister of Finance have the authority to do that now, to set up a statement of that kind?

Mr. CLARKE: Yes; and you remember when the bill was brought into the house and into committee the Minister of Transport indicated that that was part of the plan, that it should be done; but as a result of discussion in the committee it was desired to put a specific obligation upon the Minister of Finance to have it in the public accounts. We would have done it anyway, probably; it was part of the original plan.

Mr. MAYBANK: Just at that point, I did not get the reading of the amendment; what I want to know is, does that include all railways?

The CHAIRMAN: It included all railways and is to show cash outlays, land grants, loans, advances, guarantees or otherwise, given by the Dominion to all railways.

Mr. MAYBANK: To all railways?

The CHAIRMAN: Yes.

Mr. HEAPS: Are there any grants or guarantees being given the railways by provincial governments? Would they be shown in there?

Mr. CLARKE: No.

Mr. KINLEY: Does that say, all railways; I think the intention was all railways receiving government assistance.

Mr. MAYBANK: I asked that, as a matter of fact, to make sure that moneys that were given to the Canadian Pacific railway many years ago should be included in that statement.

Mr. BEAUBIEN: So that it will give to the Canadian people a true picture of their adventures in railway operation.

The CHAIRMAN: Exactly.

Mr. WALSH: Might I ask this question; you are giving one side of the picture there, the grants made to these railways. Sometimes these grants were made and in return the government asked a quid pro quo. For instance, I think a grant was made of a sum of around \$25,000,000 in connection with the construction of the Crow's Nest Pass Railway through the Rockies, and in return for that grant a freight rate reduction was given by the Canadian Pacific railway.

Mr. MAYBANK: And they had certain monopolistic rights at the same time.

Mr. WALSH: Is that going to be shown or are we only going to show the actual grant of \$25,000,000. Are we not going to show something to offset that? And the same thing applies to the Canadian National, we made grants of sums of money to the Canadian National for certain purposes and in return we got something that at the time was of potential value. Is that going to be shown? Is it fair to these railways to show only the actual amounts that have been granted from time to time without showing on the other side what we got in return for those grants?

Mr. HEAPS: The same thing would apply to practically every railway facility in Canada going back for quite a number of years, even since Confederation. The same thing would apply to the Intercolonial, and to every railway system which has been built in Canada. If we were to put in in each case the quid pro quo which we got I think we would have to write a book, not a report. If it can be done I have no objection; but I think just the plain statement of the facts as suggested would suffice.

Mr. MAYBANK: You would have to include in that a good deal of the material from the Duncan report in order to satisfy all the people.

Mr. WALSH: As I see it in many cases we got something for these grants. For instance, just last year we made a substantial grant to the railway companies in connection with unemployment—providing work on the right of way and so on. Now, are we going to show that grant as a charge against the Canadian Pacific, and as a charge against the Canadian National? Is it fair to these railway systems to have the people of Canada entertaining that view, that we have been giving hand-outs to the railways and getting nothing in return?

Mr. BEAUBIEN: We are not concerned with being fair to the railways; we are concerned with giving the people of Canada a true picture of railway operations.

The CHAIRMAN: Surely we can trust the officials of the Finance department to present a true picture in their public accounts. They have always done that in the past. All we are doing here is compelling the minister to do it yearly instead of doing it in the manner in which it has been done in the past. Under this arrangement it will be a little more complete in detail. That is all it amounts to.

Mr. WALSH: I just make that point, because it is of interest to the Canadian National as well as to the Canadian Pacific to show the quid pro quo, in my estimation.

Mr. MAYBANK: We could not possibly put that in there.

Mr. WALSH: I just make the point.

The CHAIRMAN: Shall the clause carry?

Clause 24 carried.

The CHAIRMAN: Shall clause 25 carry—that is the date of coming into force of the act. It was clause 23 and it has become clause 25.

Hon. Mr. STEWART: I understood that this bill was to be based on the figures of the report for the calendar year 1936. If that report is available I suppose the amounts included in it would have to be substituted for those which now appear in the schedule.

The CHAIRMAN: That was stated earlier in our proceedings.

Mr. MAYBANK: In what form will the report of the railways be presented to this committee, I suppose it will be in the same form as that which has been used in other years?

Mr. McLAREN: It will be in the same form as in previous years.

Mr. MAYBANK: And the next report will take on the new form?

Mr. McLAREN: Right.

The CHAIRMAN: Shall the section carry?

Section agreed to.

The CHAIRMAN: Shall the title carry?

Title agreed to.

The CHAIRMAN: Shall I report the bill?

Hon. Mr. STEWART: Should we not have the figures now suggested before you report the bill?

The CHAIRMAN: As I said to Mr. Walsh, the figures are to be given to me and they will be included in the evidence; so, by unanimous consent, we could report the bill.

Mr. WALSH: I think somebody at the other end of the table took exception to that being done.

Mr. MAYBANK: I think it was I who spoke, and I just wanted to make clear that it would be the proper mode of procedure.

Mr. WALSH: When you are asking us to report this bill does that mean that this committee are unanimously in favour of it as it now stands?

The CHAIRMAN: Well, we hope so.

Mr. WALSH: You see, I am not. I want to speak to this bill when it goes into the house; and I shall speak probably in no uncertain terms.

The CHAIRMAN: I am going to indicate a unanimous report. There is no dissenting report to be submitted. I am simply reporting the bill to the house. When it goes into committee there I think you will have an ample opportunity to discuss it.

Mr. HEAPS: This bill is before a committee of the house now.

The CHAIRMAN: The resolution was introduced by the minister, then the bill was given first reading and second reading and sent to this committee to report to the house and I understand that they would then consider it in committee of the whole.

Mr. HEAPS: Let me get this clear; I want to protect Mr. Walsh in all his rights, I understood that the bill was given first reading and second reading and referred to this committee. It does not go back to a committee of the house after this.

The CHAIRMAN: It was given second reading.

Hon. Mr. STEWART: We present the report of this committee and that brings opportunity for discussion; if the house adopts the report of the committee the bill stands for third reading.

The CHAIRMAN: I am sure that Mr. Walsh will have ample opportunity for discussion when the bill comes up for third reading.

Mr. HEAPS: It was stated here that he would have a chance for discussion in the committee of the house.

The CHAIRMAN: That was my mistake.

Mr. HEAPS: He has no chance for discussion in committee of the house, but he will have a change to make a formal statement on third reading.

The CHAIRMAN: He loves that.

Mr. KINLEY: The assumption is that the committee reports the bill. If anybody wants to vote against the bill they must vote against it here.

The CHAIRMAN: I do not think Mr. Walsh has any desire to go to that extent. I think what he wants is assurance that he will have an opportunity of speaking on the bill again in the house.

Mr. WALSH: Well, when we present a unanimous report on the bill that does not mean that we are all in favour of all that is in it.

Mr. HEAPS: I think it should be clearly understood that on third reading will be the only opportunity members will have of speaking on this bill — when the report is presented to the house, and subsequently on third reading of the bill.

The CHAIRMAN: Right.

Mr. WALSH: Might I make a statement before the committee adjourns. I want to make this statement in fairness to a remark which I made at the beginning of the session, Mr. Chairman. I understood when I came in here this morning that Mr. Howe was going to be present and I did not like to bring up the points which I brought up in his absence, and I asked permission from the chairman to proceed, and he thought it would be quite in order for me to proceed in his absence. I would not like Mr. Howe or anybody else to think that I was taking advantage of his absence.

The CHAIRMAN: I will explain to him.

Hon. Mr. STEWART: Will this bill be reprinted as amended?

The CHAIRMAN: I think so, yes.

Hon. Mr. STEWART: With the figures based on the report of 1936. It seems to me that that would save time in the house.

The CHAIRMAN: Yes, Mr. Stewart.

Gentlemen, this committee stands adjourned at the call of the chair.

The committee adjourned at 12.20 p.m., this day to meet again at the call of the chair.

APPENDIX "A"

AMENDMENTS TO CLAUSE 2 OF BILL No. 12

- 2 (a). "Government Railways" means and includes all such railways or parts thereof, and all such properties, works, powers, rights and privileges or interests or any of them as may be designated whether generally or in detail, in any Order in Council from time to time subsisting, entrusting the management and operation thereof to the Canadian National Railway Company under the provisions of Section nineteen of the Canadian National Railways Act, Chapter one hundred and seventy-two, Revised Statutes of Canada, 1927, and includes, unless expressly excepted, all properties, works, powers, rights and privileges incidental to those designated and commonly used, operated and enjoyed in connection therewith.
- 2 (d). "National Railways" means the Canadian National Railway Company, as owner, operator, manager and otherwise, and its transportation, communication and hotel system, which system shall be deemed to comprise all companies which are elements of the Canadian National Railways as defined in the Canadian National Railways Act, Chapter one hundred and seventy-two, Revised Statutes of Canada, 1927, as amended by Chapter ten of the Statutes of Canada, 1929, the respective undertakings of such companies, the Canadian National Railway Company in its capacity as owner, manager or operator, in whole or in part, of any railways, excepting Canadian Government railways, or of any land, water or air transportation or communication services or hotel services, and the said railways and services, their works and property, and all such works and property as are ancillary.
- 2 (e). "National Railway System" means the Canadian National Railway Company as owner, operator, manager and otherwise, and its transportation, communication and hotel system, which system shall be deemed to comprise all companies which are elements of the Canadian National Railways as defined in the Canadian National Railways Act, Chapter one hundred and seventy-two, Revised Statutes of Canada, 1927, as amended by Chapter ten of the Statutes of Canada, 1929, the respective undertakings of such companies, the Canadian National Railway Company in its capacity as owner, manager or operator in whole or in part of any railways, including Canadian Government railways, or of any land, water or air transportation or communication services or hotel services, and the said railways and services, their works and property, and all such works and property as are ancillary.

APPENDIX "B"

REPRINT OF PAGES 2 AND 3 OF MINUTES OF EVIDENCE

(See *Minutes of Proceedings*)

- Second: to centralize the corporate stock control by the Dominion of all companies now comprising the National Railway System through one company, i.e., the Canadian National Railway Company. This preliminary step is co-related to
- (i) the legal amalgamation of certain constituent companies of the system with a view to effecting ultimate savings in accounting and other costs, and

(ii) the unification of certain funded debt issues of the National Railways through refunding issues in the name of the parent corporation, Canadian National Railway Company, for the purpose of bringing about savings in interest and other costs.

Third: the elimination from the corporate books of those capital stocks determined by arbitration tribunals to be without value;

Fourth: the preservation through the Securities Trust of the priority rights of the Dominion in respect of certain unguaranteed securities and subsidiary company capital stocks held by the public.

The proposed revision of the railway balance sheet does not in any way increase the Net Debt of Canada as shown by Public Accounts. This is because the relative capital stocks (as written down) were acquired without cash payment by the Dominion and because the old debentures, the loans applied for both capital and deficits, the accrued interest on loans and the appropriations for Canadian Government Railways capital investment have already been embodied in the Net Debt of Canada.

A condensed summary of the consolidated balance sheet revision, on the basis of the 1935 accounts, is as follows:—

Write-down of capital stocks and old debentures by concurrent reduction of property accounts.....		\$ 262,770,972 03
Elimination of loans applied for deficits by concurrent reduction of deficit account.....	\$361,244,349 91	
Elimination of accrued interest on loans by concurrent reduction of deficit account.....	495,030,137 29	856,274,487 20
Total reduction in capital and liabilities.....		\$1,119,045,459 23

In addition to the above, the adjustment plan includes the transfer from "Liabilities" to "Dominion Government—Proprietor's Equity" of the following:—

Loans applied for capital purposes—represented in the 5 million shares of capital stock of the Securities Trust.....	\$284,283,105 92
Appropriations for Canadian Government Railways capital investment.....	388,290,294 40
	\$672,573,400 32
Transfer of residual value of Canadian Northern capital stock to the Canadian National Company and the issuance by the latter of its capital stock.....	18,000,000 00
Total of "Dominion Government—Proprietor's Equity" preserved on the Consolidated Balance Sheet.....	\$690,573,400 32

The detail of these adjustments is shown as Appendices 4 and 5 to the Bill.

The figures used are those of December 31, 1935, which will be revised as of December 31, 1936, when the final figures as of that date are available. The difference between the 1935 and 1936 figures will be the accrual of Government interest and the non-cash deficit items during the year 1936.

It is important to note that any capital investments by the Dominion are continued, at the face value, on the balance sheet without diminution; the amounts eliminated in connection with loans having to do only with the sums lost in operation and accruals of interest.

Centralization of Capital Stock Control

The Bill provides for the centralization of the capital stock control of the companies now comprising the National Railway System through one company, i.e., the Canadian National Railway Company. This preliminary step is co-related to the unification of certain funded debt issues of the National Railways through refunding securities in the name of the parent corporation, Canadian National Railway Company, for the purpose of bringing about savings in interest and related costs of financing. It will also facilitate the legal amalgamation in due course of certain constituent companies of the system with a view to effecting ultimate savings in accounting and other costs.

The National System is comprised of some 100 companies falling under two main groups, i.e., the Canadian National group (including the old Grand Trunk, the Grand Trunk Pacific, the Grand Trunk Western and the Central Vermont) comprised of some 60 companies and the Canadian Northern group comprised of some 40 companies.

Whilst the board of directors for the two parent companies, the Canadian National Railway Company and the Canadian Northern Railway Company, are the same, the capital stock control of the Canadian Northern group of some 40 companies has not been vested in the Canadian National Company but directly in the Government. This creates an unsatisfactory situation in that, since amalgamation in 1923, the financing and refunding operations of the Canadian Northern group has been effected through the Canadian National Company without its having proper stock control. The Bill provides for the correction of this situation by having the Canadian National Company directly control the Canadian Northern group and by having the Government control all the presently existing corporate units of the National System through one corporation, i.e., the Canadian National Company.

Canadian Government Railways

In addition to the two major corporate groups, the National System includes the Crown Properties, i.e., the Canadian Government Railways, the operation and management of which have been entrusted to the Canadian National Company. Under the 1919 Act the surpluses or deficits of the Canadian Government Railways were to be disposed of through the Consolidated Revenue Fund of Canada. The intent of the 1919 Act has, however, been nullified by the consolidation of the operations of the Canadian Government Railways with those of the National Railways since 1922 together with the provisions of the various appropriation acts since 1922. The present bill seeks to remedy the situation and, at the same time, to open the way for some economies in accounting costs by eliminating the necessity of submitting separate Income Statements for the Government Railways.

Write-off Capital Stocks and Debentures

The Bill further provides for the writing out of the Canadian National (old Grand Trunk) and Canadian Northern capital stocks and the old Grand Trunk debentures, a summary of which in round figures is as follows:—

Canadian National Co.—Capital Stock (Gross amount 180 million dollars).....	165 million dollars
Old Grand Trunk—Debentures.....	15 million dollars
Canadian Northern Co.—Capital Stock.....	82 million dollars
By reduction of Property Accounts.....	262 million dollars

Canadian National (old Grand Trunk) Capital Stock

The proposal to eliminate the Canadian National stock, as successor issue to the old Grand Trunk 1st, 2nd and 3rd preference and common stocks, from the balance sheet of the National System is based upon the 1921 findings of the Grand Trunk Board of Arbitration constituted under the 1919 Act. This tribunal ruled that the capital stocks in question had no value.

Following upon this arbitration award, an appeal was taken to the Privy Council based largely upon the question whether the arbitrators in excluding evidence as to the physical assets of the Company were wrong in law. The Privy Council dismissed the appeal in a judgment delivered on November 10, 1922.

The recent Lovibond appeal was cited in the early part of 1936 as a reason for the continuance of a negative attitude towards capital adjustment. Since that time the decision of the Privy Council has been announced. It wholly stays

the action as against the Attorney General of Canada, and as against the Grand Trunk and Canadian National in so far as it seeks to have the stock register of the Grand Trunk rectified or to have Grand Trunk stock registered in the name of the Plaintiff. The Privy Council states that the Plaintiff has failed in regard to the main object of his action which can now only proceed for the purpose, for whatever it may be worth, of seeking to recover damages against the Grand Trunk and the Canadian National.

On page 105 of the Minutes of and Evidence, the following to appear, after line 32:—

Mr. MACLAREN: I made the statement that the regulation issued by the Department of Railways and Canals, the classification provided there, or the distribution of operating expenses, does not permit depreciation to be charged up as an operating expense. I just want to make that clear. That is what they provide, and I am sorry that I have not a copy of the classification here. But I have no doubt that if they applied to the proper authority, they might be granted that privilege. I am not denying that.

Mr. VIEN: Would you be kind enough on Tuesday to point out to the committee the regulations which prevent you from doing so. It will be very illuminating to us.

Mr. MACLAREN: Yes.

APPENDIX "C"

BALANCE SHEETS REQUESTED BY W. A. WALSH, Esq., M.P.

SCHEDULE NUMBER

- 1 C. N. R.—Condensed Balance Sheet at December 31, 1935.
- 2 Public Accounts—Balance Sheet at March 31, 1936.
- 3 Public Accounts and Canadian National Railways—Consolidation of Balance Sheets.
- 4 C. N. R.—Revision of Consolidated Balance Sheet at December 31, 1935, as per Bill 12.
- 5 Public Accounts—Revision of Public Accounts at March 31, 1936, as per Bill 12.
- 6 Public Accounts and Canadian National Railways—Consolidation of Balance Sheets after giving effect to provisions of Bill 12.

CANADIAN NATIONAL RAILWAYS

SCHEDULE 1.

CONDENSED BALANCE SHEET AT DECEMBER 31, 1935
(Showing Tie-in to Public Accounts, March 31, 1936)

ASSETS	LIABILITIES	Relative	
		No. on	Public
INVESTMENTS—	STOCKS—	Accounts	
		Balance	Sheet
		\$	cts.
Investment in Road.....	Owned by Government—		
Improvements on Leased Railway Property.....	Canadian Northern Stock; in Public Accounts...	10,000,000	00
Miscellaneous Physical Property.....	Balance, Canadian Northern and Grand Trunk		
	Stocks; not in Public Accounts.....	255,628,338	70
SINKING FUNDS.....		265,628	338 70
DEPOSITS IN LIEU OF MORTGAGED PROPERTY SOLD.....	Owned by Public.....	4,584,225	00
INVESTMENTS IN AFFILIATED COMPANIES.....		270,212,563	70
OTHER INVESTMENTS.....	GOVERNMENT GRANTS—		
CURRENT ASSETS.....	G. T. Debiture Account.....	15,142,633	33
DEFERRED ASSETS.....	All other.....	2,570,904	78
UNADJUSTED DEBITS.....	LONG TERM DEBT—PUBLIC.....	1,154,779,000	78
	LOANS FROM DOMINION OF CANADA—		
	Temporary Loans (outstanding March 31, 1936)...	2,043,725	00
	Temporary Loans (repaid by March 31, 1936)....	72,683,250	00
	Loans (prior to 1932).....	645,527,455	83
	Capital Loans from 1932.....	34,346,479	25
	Interest on Government Loans.....	495,030,137	29
	DOMINION OF CANADA EXPENDITURES FOR C.G.R.—		
	Road and Equipment, per Public Accounts.....	388,880,002	78
	Less, adjustment not taken into Public Accounts	589,708	38
	C.G.R. Stores and Open Accounts, per Public		
	Accounts.....	15,748,921	60
	Plus, adjustments not taken into Public Accounts	1,023,058	94
	CURRENT LIABILITIES.....	45,330,201	96
	DEFERRED LIABILITIES.....	3,423,088	12
	UNADJUSTED CREDITS AND RESERVES.....	35,272,608	46
	TOTAL LIABILITIES.....	3,181,424,323	44
	PROFIT AND LOSS BALANCE.....	856,274,487	20
		\$ 2,325,149,836	24

* Total, \$2,207,793,741.18.

SCHEDULE 2.

PUBLIC ACCOUNTS OF CANADA

BALANCE SHEET AT MARCH 31, 1936

(Showing Tie-in to Canadian National Railways Balance Sheet, December 31, 1935)

ASSETS		Relative Number on C.N.R. Balance Sheet	LIABILITIES	
	\$ cts.			\$ cts.
Cash.....	20,243,808 20		Bank Circulation Redemption Fund.....	6,857,941 84
Gold Bullion Account.....	2,236,628 91		Post Office Account.....	2,726,925 05
Advances to Provinces, etc.....	223,788,091 49		Post Office Savings' Bank.....	22,047,287 14
Railway Accounts—			Insurance and Superannuation Funds.....	150,614,097 08
Capital Loans to C.N.R.....	34,346,479 25	1	Trust Funds.....	20,943,718 36
Temporary Loans to C.N.R.....	2,043,725 00	2	Contingent and Special Funds.....	6,044,064 70
Loans—January—March 1936.....	1,183,592 65		Province Debt Accounts.....	9,623,816 77
All Other.....	8,513,700 84		Interest due and outstanding.....	1,739,167 37
Advances to Foreign Governments.....	30,494,720 00		Funded Debt, less Sinking Funds.....	3,211,347 008 32
Soldier and Land Settlement Loans.....	43,594,539 00			
Miscellaneous Current Accounts—				
Canadian Government Railways.....	15,748,921 60	3		
All Other.....	43,649,302 06			
	425,843,509 60			
*Balance Net Debt.....	3,006,100,517 03			
	3,431,944,026 63			3,431,944,026 63
*DETAIL OF NET DEBT—				
Public Works, Canals.....	242,855,235 35			
Public Works, Railways—				
Canadian Government Railways.....	388,880,002 78	4		
All Other.....	54,030,906 46			
Public Works, Miscellaneous.....	265,165,018 23			
Military and Stores.....	12,035,420 50			
Territorial Accounts.....	9,895,947 68			
Railway Accounts (old)—		5		
G.T.R. Debenture Account, Principal...	15,142,633 34			
G.T.R. Debenture Account, Interest.....	10,464,760 19			
All Other.....	62,791,435 25			
Railway Accounts (Loans, non-active)—		6		
Loans to C.N.R.....	645,527,455 83			
Purchase Canadian Northern Stock.....	10,000,000 00			
Canadian National Steamships.....	15,507,970 19			
Miscellaneous Investments.....	79,621,229 71			
Consolidated Fund.....	1,194,182,501 52	8		
	3,006,100,517 03			

CONSOLIDATION OF BALANCE SHEETS
CANADIAN NATIONAL RAILWAYS DECEMBER 31, 1935
Dominion of Canada March 31, 1936

	Canadian National Railways, December 31, 1935	Dominion of Canada, March 31, 1936	Total		Elimination		Total	
	\$	cts.	\$	cts.	\$	cts.	\$	cts.
ASSETS								
(1) Investments.....	2,207,793,	741 18	.....	.....	255,628,	338 70 (A)	1,952,165,	402 48
(2) Other Assets.....	117,356,	095 06	.....	.....	52,139,	125 85 (B)	491,060,	478 81
(3) Balance of Net Debt of Canada, March 31, 1936.....	.....	.....	425,843,	509 60	1,059,550,	091 94 (C)	1,946,550,	425 09
(4) Canadian National Railways Profit and Loss Account.....	856,	274,487 20	.....	.....	495,030,	137 29 (D)	361,244,	349 91
	3,181,424,	323 44	3,431,944,	026 63	1,862,347,	693 78	4,751,020,	656 29
LIABILITIES								
(4) Capital Stocks.....	270,212,	563 70	.....	.....	265,628,	338 70 (A)	4,584,	225 00
(5) Government Loans since 1931 plus advances for Working Capital.....	125,845,	434 79	.....	.....	52,139,	125 85 (B)	73,706,	308 94 (F)
(6) Other Liabilities.....	2,785,366,	324 95	.....	.....	1,544,580,	229 23 (E)	4,672,730,	122 35
	3,181,424,	323 44	3,431,944,	026 63	1,862,347,	693 78	4,751,020,	656 29

(A) Par Value of Capital Stocks owned by Dominion \$265,628,338.70 of which \$10,000,000 has been eliminated in item C.
(B) See Items 1, 2 and 3 on Balance Sheets attached.
(C) See Items 4, 5, 6 and 7 on Balance Sheets attached.
(D) Accrued Interest on Government Loans. (Item 8 on Balance Sheets attached).
(E) See Items 4, 5, 6 and 8 on Balance Sheets attached.
(F) Repaid between January and March, 1936, an amount of \$72,683,250. Balance covered by Schedule B to Bill No. 12.

CANADIAN NATIONAL RAILWAY SYSTEM
 REVISION OF CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1935—AS PER BILL 12

SCHEDULE 4.

ASSETS		LIABILITIES		C. N. R. Consolidated Balance Sheet AFTER ADJUSTMENT		Relative Number on Public Accounts Revised Balance Sheet	
INVESTMENTS—		STOCKS—		Capital Stock of Subsidiary Companies owned by			
Investment on Road and Equipment...	\$ 1,831,407,108 95	Public.....		4,584,225 00			
Improvements on Leased Railway Prop- erty.....	3,879,078 18	GOVERNMENTAL GRANTS.....		2,570,904 78			
Miscellaneous Physical Property.....	60,227,654 28	LONG-TERM DEBT—PUBLIC.....		1,154,779,000 79			
	\$ 1,895,513,841 41	DOMINION OF CANADA—					
Sinking Funds.....	11,921,666 97	Temporary Loans:					
Deposits in lieu of Mortgaged Property Sold.....	5,224,995 66	Outstanding March 31, 1936.....		2,043,725 60		2	
Investment in Affiliated Companies....	31,584,107 59	Repaid by March 31, 1936.....		72,683,250 00		1	
Other Investments.....	778,157 52	Capital Loans from 1932.....		34,346,479 25			
	\$ 1,945,022,769 15	C.G.R. WORKING CAPITAL.....		16,771 980 54		3	
CURRENT ASSETS.....	74,787,953 24	CURRENT LIABILITIES.....		45,330,201 96			
DEFERRED ASSETS.....	18,837,219 76	DEFERRED LIABILITIES.....		3,423,088 12			
UNADJUSTED DEBITS.....	22,064,024 49	UNADJUSTED CREDITS AND RESERVES.....		35,272,608 46		6	
		TOTAL LIABILITIES.....		\$ 1,371,805,463 89			
		DOMINION GOVERNMENT—PROPRIETOR'S EQUITY					
		(Represented by)—					
		1,000,000 shares of no par value					
		stock of the Canadian National					
		Railway Company issued in ex-					
		change for the residual value of					
		Canadian Northern Stock.....\$		18,000,000 00			
		5,000,000 shares of no par value					
		capital stock issued by Securities					
		Trust to the Government in con-					
		sideration for the securities, ad-					
		vances, claims for unpaid interest					
		and collateral security now held					
		by Government.....		282,616,208 35		5	
		Dominion Government Capital Ex-					
		penditures for Canadian Govern-					
		ment Railways.....		388,290,294 40		4	
				688,906,502 75			
				\$ 2,060,711,966 64			

REVISION OF PUBLIC ACCOUNTS OF CANADA AT MARCH 31, 1936

As per Bill 22

Relative
Number
on
Revised
C.N.R.
Balance
Sheet

ASSETS

	\$	cts.
Cash.....	20,243,808	20
Gold Bullion.....	2,236,628	91
Advances to Provinces, etc.....	223,788,091	49
Railway Accounts—		
Capital Loans to C.N.R.....	34,346,479	25
Temporary Loans to C.N.R.....	2,043,725	00
Loans C.N.R., January-March, 1936.....	1,183,592	65
All other.....	8,513,700	84
Advances to Foreign Governments.....	30,494,720	00
Soldier and Land Settlement Loans.....	43,594,539	60
Miscellaneous Current Accounts—		
Canadian Government Railways.....	16,771,980	54
All other.....	43,649,302	06

*Balance Net Debt.....	426,866,568	54
	3,005,077,458	09
	3,431,944,026	63

*DETAIL OF NET DEBT—	242,855,235	35
Public Works—Canals.....	388,290,294	40
Public Works—Railways—	54,488,433	22
Canadian Government Railways.....	265,165,018	23
All Other.....	12,035,420	50
Public Works—Miscellaneous.....	9,895,947	68
Military and Stores.....	62,791,435	25
Territorial Accounts.....		
Railway Accounts—old (C.P.R.).....	282,616,208	35
Canadian National Securities Trust Stock Account.....	18,000,000	00
Canadian National Railway Company Stock Account.....	15,507,970	19
Canadian National Steamships.....	79,621,229	71
Miscellaneous Investments.....	1,573,810,265	21
Consolidated Fund.....	3,005,077,458	09

Bank Circulation Redemption Fund.....	6,857,941	84
Post Office Account—Money Orders, Postal Notes, etc.....	2,726,925	05
Post Office Savings Bank Deposits.....	22,047,287	14
Insurance and Superannuation Funds.....	150,614,097	08
Trust Funds, per Schedule P.....	20,943,718	36
Contingent and Special Funds.....	6,044,064	70
Province Debt Accounts.....	9,623,816	77
Interest Due and Outstanding.....	1,739,167	37
Funded Debt, Less Sinking Funds.....	3,211,347,008	32

3,431,944,026	63
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SCHEDULE 6.

CONSOLIDATION OF BALANCE SHEETS
CANADIAN NATIONAL RAILWAYS, DECEMBER 31, 1935
PUBLIC ACCOUNTS OF CANADA, MARCH 31, 1936
After giving effect to Provisions of Bill 12

	C. N. R. December 31, 1935	Public Accounts, March 31, 1936	A. Elimination of Proprietor's equity for purpose of Consolidation. B. Elimination of Temporary Loans	Total
	\$ cts.	\$ cts.	\$ cts.	\$ cts.
ASSETS				
Investments.....	1,945,022,769 15	53,162,184 79	53,162,184 79 (B)	1,945,022,769 15
Temporary Loans to C.N.R.....	115,689,197 49	373,704,383 75		489,393,581 24
Other Assets.....				
Balance Net Debt of Dominion of Canada.....		3,005,077,458 09	688,906,502 75 (A)	2,316,170,955 34
	2,060,711,966 64	3,431,944,026 63	742,068,687 54	4,750,587,305 73
LIABILITIES				
Capital Stocks.....	4,584,225 00			4,584,225 00
Government Temporary Loans at March 31, 1936.....	53,162,184 79		53,162,184 79 (B)	
Government Temporary Loans repaid January-March, 1936.....	72,683,250 00			72,683,250 00
Other Liabilities.....	1,241,375,804 10	3,431,944,026 63		4,673,319,830 73
Total Liabilities.....	1,371,805,463 89	3,431,944,026 63	53,162,184 79	4,750,587,305 73
Dominion Government—Proprietor's Equity in Canadian National Railways.....	688,906,502 75		688,906,502 75 (A)	
	2,060,711,966 64	3,431,944,026 63	742,068,687 54	4,750,587,305 73
AA				
AA				

APPENDIX " D "

DETAILS OF AMOUNT OF \$353,244,349.91 9* 25 TRANSFERRED TO CONSOLIDATED
FUND PER SCHEDULE B, BILL NO. 12

DEFICIT OF PREDECESSOR CORPORATIONS PRIOR TO JAN. 1, 1923, \$165,623,098.20

Loss (Ex. Interest on Government Loans as shown by Railway Accounts):—

1923	\$24,476,378 85
1924	23,203,503 95
1925	10,200,887 58
1926	8,891,013 02
1927	5,021,666 57
1928	807,491 46
1929	13,919,772 03
1930	41,039,816 39
1931	66,632,055 99
1932	65,809,533 91
1933	61,617,815 69
1934	53,667,774 93
1935	79,332,013 09

\$436,837,697 42Elimination of credit included in above figures for sundry
interest charges against the Government.. . . .

488,527 45

\$602,949,323 07Less: Amount contributed by Government for Workmen's
Compensation and Pensions payments to Canadian Gov-
ernment Railways' employees, years 1927-1930 charged by
Railway to Operating Expenses but paid through Railways
and Canals departmental appropriations

591,773 80

Less: Cash deficits contributed by Government and charged
to Consolidated Fund

241,113,199 36

\$361,244,349 91Adjustments of Public Accounts for the difference between
amount paid by Government to acquire capital stock of
the Canadian Northern Railway, \$10,000,000, and the
amount of \$18,000,000, at which it is proposed to carry
the capital stock of the Canadian National Railway taken
in exchange

8,000,000 00

\$353,244,349 91

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SESSION 1937

HOUSE OF COMMONS

STANDING COMMITTEE



ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

THURSDAY, MARCH 18, 1937

WITNESSES

Mr. S. J. Hungerford, President, Canadian National Railways; Mr. W. M. Armstrong, Bureau of Economics, Canadian National Railways; Mr. J. B. MacLaren, Comptroller, Canadian National Railways.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1937

ORDERS OF REFERENCE

MONDAY, March 15, 1937.

Ordered,—That the Resolution passed by this House on the 18th January, 1937, referring the following Estimates to the Committee of Supply be rescinded, and that the said Estimates be now referred to the Standing Committee on Railways and Shipping, viz:—

Vote 96	M.F.R.A. Canadian National Railways Eastern Lines, 20% reduction in tolls.....	\$ 1,800,000
Vote 97	M.F.R.A. Railways other than C.N.R., 20% reduction in tolls	700,000
Vote 293	Canadian National (W.I.) S.S. Capital.....	48,500
Vote 361	Canadian National Railways, Deficit 1937.....	35,000,000
Vote 362	Canadian National (W.I.) S.S. Working Capital....	500,000

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, March 16, 1937.

Ordered,—That the Financial Statements of the Canadian National Railways and the Canadian National Steamships for the current year, laid on the Table of the House this day, be referred to the Standing Committee on Railways and Shipping owned, operated and controlled by the Government.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, March 18, 1937.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 73, An Act to authorize the provision of moneys to meet certain expenditures made and indebtedness incurred by the Canadian National Railways during the calendar year 1937, and to authorize the guarantee by His Majesty of certain securities to be issued by the Canadian National Railways.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, March 18, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m.

Members present: Messrs. Barber, Beaubier, Bothwell, Deachman, Elliott (*Kindersley*), Ferland, Hanson, Heaps, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Ryan, Stewart, Walsh and Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transports; Mr. A. V. Franklin, Railway Auditor, Department of Finance, and officials of the Canadian National Railways including Mr. S. J. Hungerford, President; Mr. W. M. Armstrong, Bureau of Economics; Mr. J. B. MacLaren, Comptroller, and Mr. T. H. Cooper, Assistant Comptroller.

Due to the unavoidable absence of the Chairman, Sir Eugene Fiset, on motion of Mr. Ryan, Dr. Young was selected as Acting Chairman.

Dr. Young took the Chair.

The committee proceeded to the consideration of the Annual Report of the Canadian National Railway System for the year ended December 31, 1936, Messrs. Hungerford, Armstrong and MacLaren being questioned on several items of the report.

In the course of the committee's proceedings, leave was granted Mr. J. F. Pouliot, M.P., to address the committee.

At 1 o'clock the committee adjourned until 4 p.m.

AFTERNOON SITTING

The committee resumed at 4 o'clock.

Members present: Messrs. Barber, Beaubier, Bothwell, Deachman, Elliott (*Kindersley*), Ferland, Hanson, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Ryan, Walsh and Young.

At six o'clock the committee adjourned until Friday, March 19, at 11 a.m.

The committee resumed consideration of the Annual Report of the Canadian National Railway System, the said report being adopted.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, Room 268,

March 18, 1937.

The Select Standing Committee on Railways and Shipping met at 11 o'clock.

Hon. Mr. HOWE: Gentlemen, unfortunately our chairman Sir Eugene Fiset is ill to-day and we must have a temporary chairman. I understand that Dr. Young is the senior member of this committee, and I would suggest that he act as our chairman.

Mr. RYAN: I move that Dr. Young take the chair.

Mr. A. M. YOUNG, took the chair.

The Acting CHAIRMAN: Gentlemen, I was not aware until this moment that Sir Eugene Fiset was not here. We will have to proceed in his absence as best we can. I think the first matter we have to consider is the Canadian National report, and in that regard I think the best way to proceed is to begin at the beginning and go through the report. Mr. Armstrong, I understand, will read the report.

W. M. ARMSTRONG (Bureau of Economics C.N.R.) reads:

Montreal, Que., March 10, 1937.

The Honourable C. D. HOWE, M.P.,
Minister of Transport,
Ottawa.

Sir,—In conformity with sections 14 and 15 of The Canadian National-Canadian Pacific Act, 1936, the Board of Directors submits the following report of the operations of the Canadian National Railways for the calendar year 1936.

RESULT OF OPERATIONS

	1936	1935	Increase or Decrease
Operating revenues.. . . .	\$186,610,489 38	\$173,184,501 82	\$13,425,987 56
Operating expenses.. . . .	171,477,690 07	158,926,248 66	12,551,441 41
Net operating revenue.. . . .	\$ 15,132,799 31	\$ 14,258,253 16	\$ 874,546 15
Operating ratio.. . . .	91.89%	91.77%	
Net of taxes, rentals and other cash requirements.. . . .	8,723,888 05	7,427,254 27	1,296,633 78
Net available for interest.. . . .	\$ 6,408,911 26	\$ 6,830,998 89	\$ 422,087 63*
Interest on funded debt held by public	49,184,622 87	53,468,792 22	4,284,169 35*
Interest on government loans for re- funding.. . . .	527,682 21	783,671 47	255,989 26*
Cash deficit.. . . .	\$ 43,303,393 82	\$ 47,421,464 80	\$ 4,118,070 98*

* December.

Operating Revenues

Gross operating revenues increased over those of the preceding year by \$13,425,987 or 7.75 per cent. From the low point of \$148,519,742 in 1933, revenues increased progressively reaching \$164,902,502 in 1934, \$173,184,502 in 1935 and \$186,610,489 in 1936. These figures indicate that the severity of the depression is gradually easing. The effect of the economic disturbance on rail-

way earnings may be judged from the fact that for the seven-year period 1923-1929 inclusive, the gross revenues of the System averaged \$278,024,509 per annum, while for the seven-year period 1930-1936 inclusive, the average was \$183,684,870 per annum.

The increase in freight revenues amounted to \$11,680,595 or 8.73 per cent. All regions reported increases in tonnage in practically all of the principal commodities. A statement of revenue tonnage by commodities appears on page 25. The increase in agricultural products carried amounted to 719,786 tons; in animal products 143,138 tons; in mine products 1,850,442 tons; in forest products 303,632 tons; while the increase in manufactures and miscellaneous tonnage amounted to 1,626,336 tons.

Passenger revenues increased \$367,917 or 2.21 per cent. There was a reduction of approximately 13 per cent in basic passenger fares, effective June 1, 1936, and sleeping and parlour car surcharges were cancelled. The number of passengers carried increased by 377,705 and the average length of journey increased from 79.21 miles to 82.31 miles. There was again a small increase in coach excursion revenues.

There were increases in mail revenues of \$95,023, express of \$191,283, and in telegraph of \$407,390.

The revenues from hotel operations continued to improve and as a whole produced an operating profit in 1936, after taxes, of \$160,017.

Operating Expenses

Operating expenses for the year totalled \$171,477,690 as compared with \$158,926,249 for 1935, an increase of \$12,551,441 or 7.9 per cent, the principal increases being as follows:—

Increased transportation expenses necessitated by additional business.. . . .	\$4,400,000
Increased expense incurred on account of snow, ice and floods.. . . .	1,181,000
Expenditures on unemployment relief maintenance of way program.. . . .	1,015,000
Repayment to Dominion government of money advanced under Supplementary Public Works Construction Act, 1935, to increase the employment of railway shop men on rolling stock repairs—first of three equal annual instalments.. . . .	364,000
The policy of restriction of general maintenance of way was of necessity, in view of expected traffic, relaxed and larger expenditures were made for this purpose during the year, to the extent of.. . . .	1,756,000
Increased expenditures on maintenance of rolling stock to bring a larger number of units to a state of efficiency on account of increased traffic and in anticipation of continued improvement.. . . .	2,500,000
Equipment retirements chargeable to operating expenses increased.. . . .	911,000
Increased pension costs chargeable to general expenses.. . . .	424,000

The improvement in freight service operation noted in the 1935 report continued through 1936, as indicated by the following averages.

	1936	1935*
Gross tons per freight train.. . . .	1,399	1,368
Net tons per freight train.. . . .	578	564
Gross ton miles per freight train hour.. . . .	22,351	21,748
Miles per freight train hour.. . . .	16.0	15.9
Fuel consumption per 1,000 gross ton miles (pounds).. . . .	124	126

*Revised to conform to classification prescribed January 1, 1936.

Taxes, Rentals, etc.

Total taxes charged in 1936 for rail lines, express, telegraphs, hotels, lands and separately operated properties amounted to \$6,743,147, compared with \$6,044,176 in 1935, an increase of \$698,971. This is exclusive of sales tax added to the cost of material. Sales taxes in 1936 cost the railway approximately \$3,000,000. The cost of exchange in 1936 was \$943,342, against \$1,250,166 in 1935.

Interest on Funded Debt Held by the Public

The total requirements in 1936 were \$49,184,623 compared with \$53,468,792 in 1935, a decrease of \$4,284,169 brought about to a large extent by refunding operations at lower rates of interest.

[Mr. W. M. Armstrong.]

CAPITAL EXPENDITURE ACCOUNT

The net change in Capital Account "Additions and Betterments—less Retirements"—amounted to \$892,799 made up as follows:—

Equipment purchased under Dominion Government Supplementary Public Works Construction Act, 1935.. . . .	\$6,747,644
Senneterre-Rouyn branch line, authorized by Chap. 26, 1936.. . . .	117,328
Vancouver hotel.. . . .	198,628
London grade separation and station.. . . .	169,849
Air-conditioning passenger cars.. . . .	382,617
General additions and betterments, less retirements (net).. . . .	393,042
Equipment retirements.. . . .	6,330,225
	<hr/>
	\$ 892,799

The new station at London, Ontario, was officially opened on September 1 by the Right Honourable Sir Percy Vincent, Bt., the Lord Mayor of London, England.

Construction has been commenced of the Senneterre-Rouyn Branch Line authorized by Chapter 26, 1936. The length of the projected line is 100.6 miles. The location surveys were commenced in June and completed in September. The contract for clearing, grading, culverts, trestles, and substructures of bridges was awarded in October. By February 15 of this year the contractor had completed 94.5 miles of clearing and some of the culvert and rock work. Five hundred and fifty men are employed on the project. This line will be of great assistance to the new mining development now taking place in north-western Quebec. The Canadian National Railways generally are well located to serve the mining industry which is assuming an increasingly important position in the Canadian business structure.

FINANCE

Retirement of Obligations

The expenditures provided through the 1936 budget for the retirement of capital obligations, including sinking fund and equipment trust principal payments, were \$7,052,494.98.

Refunding of Maturing and Callable Obligations

The following securities matured or were called during 1936:—

\$ 5,418,000 00	2 %	Canadian National Temporary Guaranteed Bonds matured January 30, 1936.
5,020,748 98	4 %	Qu'Appelle, Long Lake & Sask. Debenture Stock matured July 1, 1936.
1,134,512 46	3½ %	Canadian Northern Ontario Debenture Stock matured July 10, 1936.
24,220,000 00	6 %	Grand Trunk Sinking Fund Gold Debenture Bonds matured September 1, 1936.
2,359,000 00	4½ %	National Transcontinental Rly. Branch Lines 1st Mortgage Sinking Fund Bonds called for redemption October 1, 1936, at par.
760,173 33	5 %	Mount Royal Tunnel & Terminal 1st Mortgage Rent Charge Bonds called for redemption October 15, 1936, at 105%.

\$38,912,434 77

The Dominion government advanced \$38,450,970.20 to retire these obligations, which amount has since been repaid from the proceeds of bond issues. The remainder was provided by sinking fund balances, etc.

New Issues

Under authority of the Refunding Act of 1935 an issue of Canadian National Railway Company Dominion Guaranteed Bonds was made, dated February 15, 1936, comprising:—

\$55,000,000 2 % seven-year bonds, sold at 98·025% at an annual cost of 2·31%.

25,000,000 3% seventeen-year bonds sold at 96·75% at an annual cost of 3·25%.

The proceeds of the issue, \$78,101,250, were utilized to retire temporary refunding loans made by the government during 1935 and 1936.

CO-OPERATIVE MEASURES

During the year co-operative economies were effected by the abandonment of 27 miles of Canadian Pacific line between Cyr Junction and Edmundston, and of 11 miles of Canadian National line between Farnham and Iberville. In each case the abandoned line was parallel to another line which is now jointly used. The estimated joint economy from these measures is \$42,000 per annum.

Your directors since their appointment have been and are giving earnest consideration to the subject of further co-operative measures with the Canadian Pacific Railway.

Agreements have been completed with the Pennsylvania Railroad Company for the joint use of the Grand Trunk car ferries operating across Lake Michigan between Muskegon, Mich., and Milwaukee, Wis., together with the joint use of the dock and terminal facilities at those two points. Joint operation under the agreements commenced January 15, 1937. It is expected there will be substantial savings in operating and interest costs as the result of the arrangements made.

Studies of various projects involving co-operation with other companies are in progress.

GENERAL

Employees, Wages, etc.

The average number of employees in service during the year 1936 was 78,836 as compared with 75,053 in 1935, an increase of 3,783, or 5·04 per cent. The total payroll expense for 1936 was \$111,221,129 as compared with \$104,861,521 in 1935. These increases do not include employees and their compensation engaged under the special unemployment relief arrangement with the Dominion government.

The 10 per cent wage deduction effective since May 1, 1935, by agreement with employees on Canadian lines was continued through the year 1936. In October certain groups of employees of the Canadian National Railways and Canadian Pacific Railway Company, acting collectively, applied to the Minister of Labour for a Conciliation Board to consider their request for the removal of the 10 per cent wage deduction. The application was on behalf of the majority of railway employees in Canada and over 100,000 employees are involved. The Board was duly established and held sittings in both Montreal and Ottawa. The report containing the recommendations of the Board in the matter was issued January 30, 1937. The railways, on February 4, 1937, informed the Department of Labour that they accepted the recommendations of the Board as forming the basis of an agreement and jointly put into effect the first of the Board's recommendations, namely, that the deduction be reduced from 10 to 9 per cent on February 1, 1937. The employees' nominee on the Board made a minority report. The representatives of the men informed the Minister of Labour that they would not accept the recommendations of the Board.

In October Canadian National employees covered by schedule for "clerks and other classes of employees," numbering approximately 9,000 also applied for a Board in connection with their request for the removal of the 10 per cent

[Mr. W. M. Armstrong.]

wage deduction. The Board was established towards the end of December and the dispute heard during the early part of February 1937. The Board's report has not been made at the time of writing.

Although the management and men do not always agree in the matter of wage adjustments, nevertheless there exists generally a very good feeling.

Beginning January 1, 1937, the main shops of the system have been placed on an increased schedule of five days per week.

Unemployment Relief Expenditures.

In co-operation with the Dominion government arrangements were made to provide employment for about 5,000 men from relief camps during the summer months. In addition the railway employed upwards of 1,000 men in the operation of steam shovels, work train service, etc., in connection with the relief program. The work undertaken consisted of maintenance and betterment work usually performed by extra gangs but did not reduce the normal seasonal program of such work which was somewhat in excess of that in 1935. The government assumed the charges for wages and transportation of the relief workers amounting to \$1,324,344, and the railway assumed the charges for supervision, timekeeping, train service and the conversion of equipment units into boarding and sleeping cars amounting to \$1,136,000. Of this, \$1,015,000 was maintenance expense, the balance capital. The plan was beneficial to the railway and assisted the government in dealing with the difficult problem of unemployment.

Reference was made in the last annual report to the Supplementary Public Works Construction Act, 1935. Delivery of new equipment purchased under this Act was completed during 1936 at a cost of \$6,747,644, and the increased employment of railway shop forces to the extent of two additional working days per month, under this Act, effective July 1, 1935, was concluded March 1, 1936, at a total cost of \$1,183,592.

Canadian National Pension Plans.

Under the various pension plans in effect on the Canadian National Railway System, 834 employees were retired during the year; pensioners deceased during the year numbered 410; and the number on pension at December 31, 1936, totalled 6,292.

United States Railroad Retirement Act.

Pending settlement of the situation regarding pensions for railroad employees in the United States, 3½ per cent was withheld from United States employees' wages and an equal amount was set aside by the railway but payments to the United States Treasury have been withheld. The arrangement for temporary allowances to retired United States employees, referred to in last year's report, is being continued.

United States Social Security Act.

All the States except one in which Canadian National Railways operate have passed unemployment compensation laws effective during 1936. Some States require contributions by the employees but all the States together with the Federal government tax the employer, the tax in 1936 representing approximately 1 per cent of the payroll, increasing to 2 per cent in 1937. The cost to the Canadian National System during 1936 was \$195,000.

An event of historic significance was celebrated July 21, 1936, on the occasion of the one hundredth anniversary of the opening of the first railway in Canada, the Champlain & St. Lawrence Railway, now part of the National System. Although the development of Railway transportation in Canada, which then had its inception has brought about with the passing of the years difficult financial problems it is unquestionable that the railways have played an all-important part in the development of the Dominion.

Progress is being made with the program of air-conditioning passenger cars with a view to increasing the attractiveness of railway travel. Considerable research has been carried on, in co-operation with other railroads, including studies of investment expenditure and cost of maintenance and operation. The program for 1937 provides for the air-conditioning of 128 cars. Together with the 70 units in the 1936 program the railway will have 198 air-conditioned cars by the end of 1937. In addition fifty coaches being purchased in 1937 will also be air-conditioned. The Pullman Company operates 53 air-conditioned cars over Canadian National lines.

This Board of Directors, which replaced the Trustees in the direction and control of the Canadian National Railways, took office on October 1, 1936.

A survey of business conditions in Canada leads to the conviction that progress will continue to be made during 1937, probably with accelerating momentum, and every effort will be made to secure for Canadian National Railways a full share of the additional traffic thereby created. The Directors hope that such increased activity will be adequately reflected in increased net earnings.

Acknowledgment is made of the loyal and efficient service rendered by officers and employees, and of the patronage given to Canadian National Railways by the public, throughout the year 1936.

For the Board of Directors.

(Sgd.) S. J. HUNGERFORD,
Chairman.

The ACTING CHAIRMAN: Gentlemen, you have just heard the report of the chairman of the Board of Directors which gives a general résumé of the whole business of the year. Is it the desire of the committee to discuss that report as a whole, or would you desire to go on to details which appear in the following pages?

Mr. HEAPS: Let us consider the details on the following pages.

The ACTING CHAIRMAN: If that meets with the approval of the committee we will pass on to the consolidated balance sheet, December 31, 1936.

Mr. KINLEY: Are we going to pass the president's report?

Mr. WALSH: I would like to ask one or two questions in connection with the report because I do not know whether I can find what I want in the balance sheet. On page 5, under the heading Taxes, Rentals, Etc., the total taxes charged in 1936 for rail lines, etc., and separately operated properties, is \$6,743,147. I suppose that includes lines in Canada and in the United States. Is it possible to know how much of these taxes was payable in Canada and how much in the United States?

Mr. McLAREN: Yes. We can supply that information.

Mr. HUNGERFORD: We will make a note of it.

Mr. WALSH: And will it go in the record?

The ACTING CHAIRMAN: It will come before the committee.

Mr. WALSH: And then there is the item of \$3,000,000 sales tax for 1936. Could we have the same information relative to the sales tax: the amount paid in Canada and the amount paid in the United States?

Mr. RYAN: Have they a sales tax in the United States?

Mr. WALSH: I do not know. There might be in some parts. All I want is a break-down. If there is none, so much the better.

Mr. HUNGERFORD: We will give you all the information we have. I think it will be complete.

Mr. WALSH: On the same page I see the words, "The expenditures providing through the 1936 budget for the retirement of capital obligations, includ-

[Mr. W. M. Armstrong.]

ing sinking fund and equipment trust principal payments, were \$7,052,494.98." What is the policy followed with regard to the issue of railway certificates?

Mr. RYAN: Is it the intention of the committee to go into these matters now, because, if it is, there are other questions to be asked. I thought the idea of the committee was to go on with the balance sheet first and take up these items.

Mr. WALSH: I did not know whether these items were included.

The ACTING CHAIRMAN: I think they will all come up under the separate schedules.

Mr. HEAPS: We had better proceed with the subsequent pages, because if we start discussing the report, we are apt to discuss it indefinitely.

Mr. WALSH: And if I miss finding what I want, I suppose I can come back to this?

The ACTING CHAIRMAN: Yes. The balance sheet as at December 31, 1936, will be read by Mr. Armstrong.

Mr. ARMSTRONG: (Reads)

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1936

ASSETS

INVESTMENTS:

Investment in Road and Equipment..	\$2,095,114,003	88	
Improvement on Leased Railway Property.. . . .	4,248,964	14	
Sinking Funds:			
System Securities at par..	\$ 245,854	23	
Other Assets at Cost..	258,199	55	504,053 78
Deposits in lieu of Mortgaged Property Sold:			
System Securities at par..	\$ 736,000	00	
Other Assets at Cost..	4,751,731	45	5,487,731 45
Miscellaneous Physical Property..	59,814,644	23	
Investments in Affiliated Companies..	31,642,437	30	
Other Investments..	741,397	31	\$2,197,553,232 09

CURRENT ASSETS:

Cash..	6,643,889	73	
Special Deposits..	7,329,892	97	
Traffic and Car-Service Balances Receivable.. . . .	1,625,702	87	
Net Balances Receivable from Agents and Conductors	4,671,503	84	
Miscellaneous Accounts Receivable.. . . \$ 4,116,325 38			
Dominion Government-Balance due on Deficit			
Contributions..	15,814,624	57	19,930,949 95
Material and Supplies..	25,958,347	51	
Interest and Dividends Receivable..	507,346	90	
Rents Receivable..	56,424,07		
Other Current Assets..	641,672	66	67,365,730 50

DEFERRED ASSETS:

Working Fund Advances..	201,015	54	
C.N.R. Insurance Fund:			
System Securities at par..	\$4,848,613	70	
Other Assets at Cost..	6,910,537	93	11,759,151 63
Other Funds..	18,256	25	
Other Deferred Assets..	6,655,458	15	18,633,881 57

UNADJUSTED DEBITS:

Rents and Insurance Premiums paid in Advance.. . .	223,565	88	
Discount on Capital Stock..	189,500	00	
Discount on Funded Debt..	11,882,787	47	
Other Unadjusted Debits..	4,520,180	24	16,816,124 59
			\$2,300,368,968 75

The accounts of the System are stated in Canadian Currency-Sterling and United States currencies being converted at the par of exchange.

Depreciation Accounting is applied to rolling stock owned by United States Lines and to certain fixed property, and Retirement Accounting is applied on the basis of original cost to other units of property on the System.

No reserve is accrued for pensions under the Canadian National Railways Pension Fund 1935. Actual pension payments are charged currently to operating expenses account "Pensions."

For contingent liabilities see page 22.

[Mr. W. M. Armstrong.]

LIABILITIES

STOCKS:		
Capital Stocks owned by Dominion Government.. . . .	\$265,628,338 70	
Capital Stocks owned by Public.. . . .	4,584,100 00	\$270,212,438 70
GOVERNMENTAL GRANTS:		
Grants in Aid of Construction:		
By Province of Canada prior to Confederation..	15,142,633 33	
Other.. . . .	3,013,748 90	18,156,382 23
LONG TERM DEBT:		
Funded Debt Unmatured.. . . .		1,184,612,248 59
LOANS FROM DOMINION OF CANADA:		
Temporary Loans obtained for redemption of funded debt, pending refunding—interest paid.. . . .	35,076,695 20	
Other Loans from Dominion of Canada..	\$686,007,330 03	
Interest on above accrued but unpaid..	530,832,597 67	1,251,916,622 90
DOMINION OF CANADA EXPENDITURES FOR CANADIAN GOVERNMENT RAILWAYS:		
Road and Equipment included in System Investment Account.. . . .	388,290,263 52	
Working Capital.. . . .	16,771,980 54	405,062,244 06
CURRENT LIABILITIES:		
Traffic and Car-Service Balances Payable.. . . .	4,243,428 89	
Audited Accounts and Wages Payable.. . . .	6,861,561 28	
Miscellaneous Accounts Payable.. . . .	3,794,140 39	
Interest Matured Unpaid.. . . .	8,332,966 50	
Funded Debt Matured Unpaid.. . . .	878,649 24	
Unmatured Interest Accrued.. . . .	9,208,833 21	
Unmatured Rents Accrued.. . . .	393,760 98	
Other Current Liabilities.. . . .	1,638,518 77	35,351,859 26
DEFERRED LIABILITIES:		
Other Deferred Liabilities.. . . .		3,331,771 52
UNADJUSTED CREDITS AND RESERVES:		
Tax Liability.. . . .	2,135,878 78	
C.N.R. Insurance Reserve.. . . .	11,759,151 63	
Accrued Depreciation—Road.. . . .U.S. Lines	2,487,819 55	
Accrued Depreciation—Equipment.. . . .U.S. Lines	13,157,059 46	
Accrued Depreciation—Miscellaneous Physical Property.. . . .U.S. Lines	1,636,969 44	
Other Unadjusted Credits and Reserves.. . . .	5,204,240 68	36,381,119 54
		904,655,718 05
		\$2,300,368,968 75

J. B. McLAREN,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1936.

The investments in properties and equipment appearing in the books of the companies as at the 1st January, 1923, were accepted by us.

The liabilities to the Dominion of Canada are stated in accordance with the certified reconciliation received from the Dominion Government.

Subject to the foregoing and our report to Parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1936, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1936, are correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Dated at Montreal, 10th March, 1937.

The ACTING CHAIRMAN: Do you wish to discuss this statement?

Mr. BOTHWELL: In connection with the statement dealing with the assets, at the bottom of page 8, I see the statement, "No reserve is accrued for pensions under the Canadian National Railways Pension Fund 1935." Has there ever been a reserve set up for pension?

Mr. HUNGERFORD: No. You are referring to the pension fund of 1935?

Mr. BOTHWELL: When was that pension fund established?

Mr. ARMSTRONG: This new fund was established on Jan. 1, 1935; the C.N.R. general pension scheme in effect prior to 1935 was changed to one of contribution.

Mr. BOTHWELL: And has the old plan been continued?

Mr. ARMSTRONG: The old plan—there were two old plans—that of the Inter-colonial and the Grand Trunk superannuation fund which are still in existence; but for the general scheme of pensions the principle was changed in 1935 to one of contribution.

Mr. BOTHWELL: Was there a fund set up for the old pension scheme?

Mr. ARMSTRONG: No. There is no fund set up.

Mr. BOTHWELL: The pensions are paid out of revenues, the same as under the new pension fund?

Mr. ARMSTRONG: Exactly.

Mr. HUNGERFORD: Excepting that in connection with the Dominion Government Railways Provident Fund there is no reserve, but in connection with the Grand Trunk Superannuation Fund there are certain assets that have been accumulated since 1874. They are not quite able to carry on under the conditions of depression that have existed the last few years because of the disturbed condition of real estate and mortgages. However, they have a reserve of their own, but there is no other reserve in connection with the system.

Mr. HEAPS: I suppose, among the assets mentioned, would be the millions spent on the new terminals at Montreal. I was just wondering if there is anything that the railways have in mind in regard to ordering the completion of a new terminal in the city of Montreal.

Mr. HUNGERFORD: I think that would come up naturally under the discussion of the budget for 1937.

Mr. HEAPS: Is any provision made in the budget for this purpose?

Mr. HUNGERFORD: Not yet.

Mr. HEAPS: I would suggest to the minister that he might take up with the officers of the railway the fact that it might be a good idea to undertake the erection of a new station in Montreal as a part of the unemployment project.

Hon. Mr. HOWE: We considered the matter carefully, and we decided that revenues for 1936 did not justify us in proceeding with the project.

Mr. HEAPS: I believe the work could be completed for a comparatively reasonable amount at the present time, and as \$13,000,000 has been spent up to date in that regard in the city of Montreal, I think we are allowing a huge hole to remain idle in the centre of the city which, in my opinion, is not right. I believe that a year or two ago Mr. Hungerford mentioned a sum of about \$6,000,000 as the amount for which the station could be finished.

Mr. HUNGERFORD: It could not be completed according to the original plan.

Mr. HEAPS: I am not speaking of the original plan.

Mr. HUNGERFORD: But it could be put into use for about \$6,000,000.

Mr. KINLEY: Now, with regard to pensions, there seems to be considerable dissatisfaction as to what is termed continuous service for pension. During the depression railwaymen had to work part time—for instance, a man would go three days or four days a week; he would be on call but he would not get a run—he would not be employed. Many of them find that they are reaching the age

[Mr. W. M. Armstrong.]

for retirement and they have not the amount of time service to entitle them to pension by reason of the fact that continuous service was interpreted to mean actual employment and not the time while waiting or on call. Now, these men were unemployed because it was advantageous for the railway not to employ them, and they could not take a job because they must remain on call. I am told that this is a matter of agreement between the men and the company, but it is causing a great deal of dissatisfaction and, I think, a great deal of injury to deserving men. This matter came up and was discussed before the enquiry presided over by Mr. Justice Maclean in regard to railway wages; and if it is considered that this policy must be carried on—that is, that these men must actually be operating at the time on what is called continuous time—

Mr. HUNGERFORD: If I might interrupt, I think the pension provisions at present are fairly liberal. It would be a very difficult thing—in fact it would be rather a dangerous thing, I think, to embark upon a policy of allowing for continuous time whether men are working or not. The principle is laid down in Provident Fund Act in as far as Canadian government railways are concerned and stipulates where the Provident Fund Act applies; and the new contributory pension plan was adopted at the beginning of 1935 and makes provision for anything but actual accumulative service, when a man is furloughed or laid off.

Mr. KINLEY: That is under the contributory pension?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: Of course, that is based on what he earns—on a fixed percentage?

Mr. HUNGERFORD: Yes; and that plan is the result of an agreement with the organizations representing the men.

Mr. RYAN: You say that before April 1935 the I.C.R. had their own fund; is that correct?

Mr. HUNGERFORD: They still have; but the Provident Fund was closed to new members some years ago, so that new employees or employees coming in since the cut-off date, come under the provision of the general contributory pension fund. However, those who were members of the Provident Fund before that cut-off date continued under the same rules that were in effect then.

Mr. HEAPS: Is that fund solvent on an actuarial basis?

Mr. HUNGERFORD: Quite.

Mr. KINLEY: Did this matter come up as a claim of railwaymen before the enquiry presided over by Mr. Justice Maclean?

Mr. HUNGERFORD: I really do not know. I am not sure whether it did or not.

Mr. KINLEY: The pension is not very large, is it—the pension before 1935?

Mr. HUNGERFORD: During this period of depression we have had employees laid off for, perhaps, five or six years. It would require pretty generous treatment to provide a pension for the time they have been laid off. Obviously, most of them are doing something else. This is a pretty difficult matter to deal with. As a matter of fact, when a man is laid off we do not know whether he will ever return to the service. Quite frequently he gets another position and does not respond to call.

Mr. RYAN: Is his seniority maintained?

Mr. HUNGERFORD: We do maintain seniority up to a point.

Mr. RYAN: Up to what point?

Mr. HUNGERFORD: Well, perhaps that varies more or less with the different groups. There is nothing definite about it.

Mr. RYAN: Is that covered by the Brotherhood of Railway Employees? Do they have something to say about that matter?

Mr. HUNGERFORD: Yes, they have a very considerable amount to say about it. The final decision, of course, rests largely on the joint decision of the organization and the members.

Mr. KINLEY: This is just a regulation of your board regarding continuous time, is it?

Mr. HUNGERFORD: There are the pension rules.

Mr. KINLEY: It is a pension rule; but who innovates that rule?

Mr. HUNGERFORD: The rules in connection with the new contributory pension plan are the result of an agreement between the organizations and the management of the railway.

Mr. KINLEY: That is with regard to this new contributing scheme, but these men I am speaking of were not contributing; they were there before that kind of pension came in.

Mr. HUNGERFORD: So far as the general pension plan, as apart from the Provident Fund or the Grand Trunk Superannuation Fund is concerned, these rules were established by the management of the railway.

Mr. HANSON: Those rules are established by the railway management in co-operation with the men.

Mr. HUNGERFORD: The new ones, yes; the old rules were established by the management, because the management of the railway contributed all of the money. However, under the new scheme the men contribute an equal amount.

Mr. KINLEY: It seems to me a lot of injury has been done; there are a lot of deserving cases being overlooked.

Mr. BOTHWELL: Is there any provision whereby beneficiaries—we may call them that—under the old scheme may come in under the new scheme?

Mr. HUNGERFORD: Yes.

Mr. BOTHWELL: Can they have their rights under the old scheme converted to this new scheme?

Mr. HUNGERFORD: Their pension rights are preserved up to the date of cut-off, December 31, 1934, and from that date on they come under the contributory pension scheme, and when a man is retired he is given the pension he has earned under the provision of the old rule up to the cut-off date, and whatever he has earned by his contributions, if he has made contributions, under the new scheme, from that date forward.

The ACTING CHAIRMAN: Shall we carry the consolidated balance sheet statement?

Mr. WALSH: I see the item "Discount on Funded Debt," \$11,882,000 odd, and I notice that in 1935 that amount was \$16,486,000, a reduction of \$4,700,000 approximately. Could we know what the items are that brought about this reduction?

Mr. McLAREN: Yes, we can give the items involved. Unextinguished discount on the bonds callable last year amounts to \$5,509,000. That is the principle difference.

The ACTING CHAIRMAN: Are there any further questions? Shall we pass this consolidated balance sheet?

Mr. HEAPS: There is a question about the fire insurance fund. What does that figure stand at the present time?

Mr. ARMSTRONG: \$11,759,151.

Mr. HEAPS: What per cent do you pay each year into that fund?

Mr. ARMSTRONG: There is nothing being accrued at the present time.

Mr. HEAPS: Nothing at all?

[Mr. W. M. Armstrong.]

Mr. ARMSTRONG: The earnings on the investment are usually more than sufficient to cover all loss during the year.

Mr. HEAPS: Have you found that satisfactory during the last few years?

Mr. ARMSTRONG: Yes.

Mr. McKINNON: What is that fund supposed to cover in the insurance field?

Mr. ARMSTRONG: Railway property.

Mr. McKINNON: Fires and wrecks?

Mr. ARMSTRONG: No, not wrecks; just fire.

Mr. HUNGERFORD: And certain losses in connection with the company's own ships on inland waters.

Mr. McKINNON: Is it a fund that you maintain?

Mr. ARMSTRONG: It is the company's own fund.

Mr. McLAREN: It is the reserve in the fire insurance fund.

Mr. HUNGERFORD: It was started many years ago. For a great many years we charged operating expenses with the ordinary premiums that would have accrued if placed in insurance, and we paid that amount into this fund.

Mr. RYAN: Is any insurance held by outside people at all?

Mr. HUNGERFORD: There are certain isolated cases where we have insured outside, but very few.

Mr. RYAN: Do you know the amount of outside insurance?

Mr. HUNGERFORD: We can get it for you.

Mr. RYAN: How is that given out to the different companies? Is there any system at all?

Mr. HUNGERFORD: We invite tenders.

The ACTING CHAIRMAN: Shall we carry this statement?

Hon. Mr. STEWART: Suppose we leave them all open for consideration before adopting them.

Mr. HEAPS: I do not think there will be any objection to adopting them. If anybody wishes to refer back he could do so. Why not carry them?

Hon. Mr. STEWART: All right.

The ACTING CHAIRMAN: We will ask Mr. Armstrong to read the profit and loss statement.

Mr. ARMSTRONG (Reads): Profit and Loss Statement.

Credits:	Year 1936	Year 1935
Credits from retired road and equipment..	\$ 22,351 25	\$ 24,631 40
Donations..	47,491 01	30,328 73

Mr. HOWDEN: What does that mean?

Mr. COOPER: Amounts contributed by industrial firms, municipalities and provincial governments.

Mr. HANSON: Donations?

Mr. COOPER: Yes.

Miscellaneous Credits..	\$291,047 91	\$586,835 09
Total Credits..	<u>\$360,890 17</u>	<u>\$641,795 22</u>

	Year 1936	Year 1935
Debits:		
Surplus appropriated for Investment in Physical Property..	\$ 707 34	\$ 2,064 34
Miscellaneous appropriations of surplus..	21,831 81	27,681 07
Debits for retired Road and Equipment..	5,952,442 36	29,111,717 21
Delayed Income Debits.. . . . .	...	48,295 61
Miscellaneous Debits..	7,114,390 53	1,961,230 55
Total Debits..	\$13,045,708 42	\$31,095,626 64
Net Profit and Loss Items (Debit)..	12,684,818 25	30,453,831 42
Net Income (Deficit) transferred..	43,197,346 04	48,878,181 67
Interest on Dominion Government Loans..	36,428,873 59	35,949,676 70
System Net Loss..	92,311,037 88	115,281,689 79
Deduct: Contributions for deficits from the Government		

	1936	1935
C.N. Railways..	\$37,449,321 57	\$41,795,757 24
Eastern Lines..	5,550,632 36	5,265,373 20
P.E.I. Car Ferry and Terminals	303,439 89	360,334 36
Eastern Lines' interest on Government Loans..	626,413 21	626,413 21
Change during year in Profit and Loss Account	48,381,230 85	67,233,811 78
Balance at January 1..	856,274,487 20	789,040,675 42
Balance at December 31..	904,655,718 05	856,274,487 20

Mr. HEAPS: I notice there is quite a large amount for retiring of equipment. May I ask the amount of new equipment you expect to have in operation this year?

Mr. HUNGERFORD: Do you mean the new equipment we intend to purchase?

Mr. HEAPS: Yes, how much?

Mr. HUNGERFORD: We expect to purchase about \$19,000,000 worth.

Mr. HEAPS: How much of that is being made in the C.N. railway shops?

Mr. HUNGERFORD: There are 125 refrigerator cars being constructed at Transcona.

Mr. HEAPS: Is it not possible for more of that equipment to be produced in the government shops?

Mr. HUNGERFORD: No, not this year.

Mr. BEAUBIER: That means that they would be working to capacity to do that work, does it?

Mr. HUNGERFORD: Substantially so, yes.

Mr. WALSH: That \$29,000,000 for 1935 includes that extraordinary amount we discussed so keenly last year.

Mr. BOTHWELL: The \$29,000,000 item?

Mr. WALSH: That is included.

Mr. McLAREN: \$24,000,000 of obsolete equipment.

Mr. WALSH: What per cent does the \$5,952,000 represent? Is that a proper percentage of the value of the equipment to set aside annually? Is that recognized as the proper amount?

Mr. McLAREN: This \$5,952,000 is represented by loss written off \$2,727,000; incompleated projects written off \$1,547,000; land values written down \$484,000; normal roadway retirement for year \$1,193,000; total, \$5,952,000.

Mr. WALSH: I think, under these circumstances, you are getting back to a condition that existed previous to 1935. In 1934 you wrote off an amount of \$1,290,000, and then last year you had an amount of \$26,000,000 or \$27,000,000 that you wrote off, and the reason for that special amount last year was that it represented an accumulation over a period of years because you had not previously written off a sufficient amount. Now, apparently you are getting back to that practice of writing off only a very small amount, and the result will be that in about five or six years we will have another very large item to cover what should be written off annually. I thought there was some practice among rail-

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roads to write 3 or 4 or 5 per cent, whatever the amount was. There is a certain fixed amount that is recognized among railways and other business institutions that should be written off—so much for depreciation—and that is more or less a fixed amount. Now, have you got any fixed amount, and are you following the practice?

Mr. HUNGERFORD: The practice you speak of is a recognized one in the United States for some railroads controlled by the Interstate Commerce Commission which sets the amount or rate of depreciation, which steam railroads must accrue each year.

Mr. WALSH: And what is the amount that they set?

Mr. McLAREN: Well, on an average, I think it was about 3 per cent.

Mr. WALSH: And does this amount you are setting aside, \$1,000,000—does that represent that practice?

Hon. Mr. HOWE: We set aside a little over \$6,000,000—\$6,600,000.

Mr. WALSH: In the statement which has been given me, the break-down of the \$5,952,000 included the amount of over \$1,000,000 for retired equipment and so on.

Mr. McLAREN: I want to complete my statement, Mr. Walsh, and say that as far as Canadian lines are concerned the instructions issued by the government department do not permit of accrued depreciation. It is known as the retirement account on a retirement basis. As far as actual retirements are concerned they amount to about—in 1936—somewhere about \$6,500,000.

Mr. WALSH: Does that appear here?

Mr. McLAREN: It does not appear in the P. & L. but it appears in the operating expenses on page 14 of the report in the different classes of equipment. For instance, on Canadian lines there is chargeable here \$5,549,000. Now, that would be written out of investment account plus whatever amount the salvage value may be of the retired equipment.

Mr. HOWDEN: I would like to follow up Mr. Heaps' interrogation with regard to the manufacture of new equipment, and I would like to ask if it is the policy of the railway to make this equipment in their own shops, as far as is feasible.

Mr. HUNGERFORD: As far as we are reasonably justified, yes; but the company's plants are designed and equipped to repair rolling stock and not to build it.

Mr. McLAREN: I would like to finish my answer to Mr. Walsh so that he will have the matter clear. There was written out of investment account for the year 1932, \$4,112,000; 1933, \$4,463,000; 1934, \$5,272,000; 1935, \$5,739,000; 1936, \$6,278,000; proposed to be written off for 1937, \$7,389,000 for equipment retirements.

Hon. Mr. HOWE: That is provided out of the operating statement.

Mr. HEAPS: May I revert to the question of equipment?

The ACTING CHAIRMAN: I want to know if we are through with this statement?

Mr. HEAPS: Yes.

The ACTING CHAIRMAN: I think what Mr. Walsh wants to ask is this: does this retirement correspond to the depreciation account in the United States, and is there sufficient in it to represent what is usually done under that other system.

Mr. WALSH: Yes. I am sorry I have not got my papers with me. Last year we had a very lengthy discussion on a very large item of \$20,000,000 odd. That, I understood, was for the scrapping of equipment that had not been scrapped over a period of years.

Mr. HUNGERFORD: We had two programs of retirements last year: one was the normal retirement which amounted to about \$6,000,000 and which represented

equipment that was worn out in service and properly chargeable to operating expenses. The large program of retirement was in connection with equipment that still had service life but was no longer usable on account of changed conditions. The principal change in that regard was the establishment of a rule all over North America which prohibited, after a certain date, the interchange of wooden cars. Then with the general shrinkage of building of branch lines where light equipment is used, we found ourselves with a surplus of cars and engines of a certain type, still having additional service value and which we could have repaired and maintained in the ordinary way, but we had no further use for them. Now, there were two separate programs in 1935. There was only one in 1936; that is, the normal retirement of equipment which is worn out.

Mr. WALSH: And this normal amount will not lead us into a similar position in another year of having to meet a very much larger amount such as we met last year?

Mr. HUNGERFORD: I do not think it will. Everybody was misled in connection with the retirement of equipment in the United States. They had depreciation accounting and had accumulated a reserve for the purpose; but as the result of depreciation on account of equipment being laid aside and not used, the American roads, to a great extent, found their depreciation reserves were inadequate, and the Interstate Commerce Commission authorized them to write off large amounts and charge them to profit and loss. And that is what was done in 1934 and 1935.

Mr. WALSH: It is the usual practice among railroads to write off a certain amount of this against profit and loss and a certain amount against operating expenses, is it not?

Mr. HUNGERFORD: I would make this distinction: it is the prevailing practice and the proper practice to charge to operating expense the retirement of equipment that is worn out—that has been used up in actual service—but where there is a change of conditions and these units are still usable but obsolete, the situation is not the same.

Mr. WALSH: The worn out materials are charged against the operating cost, whereas the obsolete materials which are not worn out are charged against profit and loss?

Mr. HUNGERFORD: Yes.

Mr. RYAN: This amount includes projects which were abandoned. Were there any projects contemplated in the province of New Brunswick which have been abandoned?

Mr. McLAREN: We will get the details of that in a moment or two. That is the amount written off that you are speaking of?

Mr. RYAN: Yes. They were contemplated, I presume.

Mr. McLAREN: I will give you the details in that regard in a moment or two.

The ACTING CHAIRMAN: Now, Dr. Howden wants to proceed and ask some questions with regard to construction in the government shops.

Mr. HOWDEN: No. I received an answer to my question.

Mr. HEAPS: I was referring to that. I have received several communications from men involved in the shops as well as in the organizations to which they belong claiming that a great deal more of the equipment could be produced in the shops; and, secondly, they were protesting against the difference between the wages paid by private contracting firms and those paid by the government. In the government shops the wage rate is considerably higher than that paid by the private contracting firms. The employees felt that a great deal more of the equipment could be produced in the railway shops than has been allotted to them by the Canadian National Railway system. Mr. Hungerford claims that the shops are working to capacity, and that might alter the factor. How-

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ever, I would like to ask further in reference to the character of the equipment which the railway has ordered. Is it the same heavy equipment that is now in use on the railways?

Mr. HUNGERFORD: The units are of the improved type, of course.

Mr. HEAPS: Perhaps I should state that last year or the year before you stated you had under contemplation the question as to whether or not you should use lighter rolling stock than you do now on the railways.

Mr. HUNGERFORD: We are giving consideration to that matter constantly; but the major portion of the traffic on our railway requires heavy equipment still, and as far as I can see, it will continue to do so.

Mr. HEAPS: Are not the American railroads now utilizing much lighter rolling stock than we are in Canada, and has it not proved popular there?

Mr. HUNGERFORD: After all, there is only a comparatively small proportion of the total traffic on the railways that is of a character that could be carried in exceptionally light equipment. By far the major portion of the traffic will have to be heavy equipment.

Mr. HEAPS: Do you feel, as far as this country is concerned, that we will have to maintain the same heavy equipment we are using at the present time?

Mr. HUNGERFORD: To a large extent.

Hon. Mr. STEWART: Would it pay to scrap good useful existing equipment although it is a little heavy just for the sake of replacing it with lighter equipment?

Mr. HUNGERFORD: Not in my judgment.

Mr. HEAPS: I am not suggesting that; but there may be a gradual replacement of the heavy equipment with the lighter equipment which is much easier and cheaper to operate.

Mr. HUNGERFORD: The only valid argument in connection with light equipment is in connection with less than carload package freight which, after all, represents a comparatively small proportion of the total freight traffic handled. It is much more economical to handle bulk commodities which, as I said before, represent the greater proportion of the total traffic, in large units. It is cheaper, and we have a constantly increasing demand for larger units to satisfy the requirements of shipping.

Mr. HEAPS: Would the same apply to passenger equipment?

Mr. HUNGERFORD: Yes and no. It depends upon the character of the service you have under consideration. For local passenger train service and branch line service there might be some advantage in having lighter equipment, but for main line use in Canada I doubt very much if there would be justification for it.

Mr. HEAPS: Have they not got the lighter equipment on the main lines in the United States now?

Mr. HUNGERFORD: They have. A good many of their roads have purchased and put into service a lot of so-called stream lined light equipment. Usually in big trains which are assembled in such a way that the units cannot be separated; they have to be operated as a whole. Only in that way is that class of equipment suitable. Where you have a multiplicity of trains with a variation of the volume of traffic you have to be able to add or subtract a car depending on the amount of the traffic.

Mr. HOWDEN: Mr. Hungerford has indicated that the shops have been built largely for the purpose of repairing equipment. I represent a constituency in Manitoba in which are the Transcona shops, and the claim is frequently made by men appealing to me that their shops are quite able to assemble engines of any type and to manufacture coaches and refrigerator cars. In that case, I assume, if their claim is correct, they would be able actually to produce a good

deal of the equipment that the company is building at the present time. Would that be so?

Mr. HUNGERFORD: They are building some there now.

Mr. HOWDEN: Yes, I understand that.

Mr. HUNGERFORD: They have built some in the past.

Mr. HOWDEN: They say they can build heavy engines there and refrigerator cars and coaches.

Mr. HUNGERFORD: They can; but it would not be advantageous to do it. We have built some locomotives at Transcona in the past, but we are not buying any locomotives this year.

Mr. DEACHMAN: I would like to ask if the original cost and maintenance of equipment is higher in Canada or in the United States?

Mr. HUNGERFORD: The original cost and maintenance?

Mr. DEACHMAN: Let us first take the initial question—the purchase of new equipment. If you are buying new cars and engines would you pay more for them than an American road would pay?

Mr. HUNGERFORD: Yes, I think that is true to an extent.

Mr. DEACHMAN: And the same would probably apply to equipment—repairs and maintenance.

Mr. HUNGERFORD: Yes.

Mr. KINLEY: It is natural that you would pay a little more. In the United States there are one hundred and twenty millions of people buying equipment, in Canada there are ten millions.

Mr. BOTHWELL: If I understood Mr. Heaps aright, he states that the complaint is made that higher wages are paid in the Canadian National shops than are paid in other shops.

Mr. HUNGERFORD: We have no definite knowledge as to the wages paid in the locomotive building plants.

Mr. HEAPS: But when you let contracts you put a fair wage clause in them, do you not?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: My information is that the wage rates in these private shops are not, I would say, any more than two-thirds of those paid in the Canadian National Railway shops for the same class of work.

Mr. HUNGERFORD: I could not say. Nearly all of the new work is done on a piece work basis, as I understand it. That rather nullifies the value of the hourly rate.

Mr. HEAPS: Even considering it on a piece work basis, the men earn only, say, two-thirds—approximately two-thirds of what the men would earn in the railway shops on an hourly basis. The comparison might even be worse on the other basis.

The ACTING CHAIRMAN: Is it your suggestion that the railways treat their employees better than these other companies do?

Mr. HEAPS: It certainly is.

Mr. DEACHMAN: You mean that they charge more to the public.

Mr. HEAPS: No, I think the other employers are taking it out of the employees, and I think it is most unfair to the railway shops.

Mr. DEACHMAN: The basic fact is from the standpoint of the consumer—which can give the better service, the government shops or the others.

Mr. HEAPS: For the benefit of Mr. Deachman I think I might refer to the figures supplied to this committee last year or the year before when it was

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claimed that the cars turned out in the railway shops had cost no more as far as the railway shops were concerned than those purchased from private contractors.

Mr. KINLEY: I would be surprised at that.

Mr. HEAPS: It is true. Mr. Hungerford, for the benefit of the committee this year would it be too much to ask if you could give that information as to the cars produced at Transcona shops two years ago?

Mr. HUNGERFORD: They were delivered last year, 1936.

Mr. HEAPS: Could we have those figures for the benefit of the members of this committee—what you paid for the same class of equipment from the private contractors?

Mr. DEACHMAN: That may be dangerous.

Mr. HEAPS: I will take a chance.

Mr. HUNGERFORD: You get into the argument with regard to the proportion of overhead charged by the railway and by the private companies.

Mr. McKINNON: You were asked a question with regard to the fair wage clause in respect of contracts let out to the other shops. What basis did you use to set the wage?

Mr. HUNGERFORD: The prevailing rate in the community.

Mr. McKINNON: It would not be a question of the rate you people have to pay yourself, or do pay?

Mr. HUNGERFORD: No.

Mr. POULIOT: I would like to ask the permission of the committee to ask a few questions. I would like to know from Mr. Hungerford when freight cars and locomotives are repaired, if the cost of the hauling is taken into consideration in the amount of repairs?

Mr. HUNGERFORD: Do you refer to hauling them back and forth?

Mr. POULIOT: Yes. Suppose a car is broken or some repairs have to be made on it at a certain distance from the shop, is that car repaired at the nearest shop, or is it sent further away?

Mr. HUNGERFORD: It all depends on the circumstances. I do not think there is any general rule in regard to it. The local officers send the equipment to the point that appears economical to them, having regard to all the circumstances.

Mr. POULIOT: Yes, Mr. Hungerford, but I would like you to define what you mean by circumstances. It seems to me that hauling is quite expensive—for instance, hauling a car for two or three or four hundred miles is much more expensive than hauling a car for one hundred miles?

Mr. HUNGERFORD: Quite so, but that might be offset by being able to get the work done cheaper or with more facility than at other points.

Mr. POULIOT: Yes, but does the railway take into consideration the cost of hauling and add it to the cost of repairs? It seems to me that there is a chance for economy there because the hauling of a locomotive is an expensive operation. Therefore, to have a better idea of the cost of repairs it seems to me that the railway should take the cost of hauling into consideration. What Mr. Hungerford has said confirms what I had already heard on the matter—that that is not taken into consideration. No private company would act on those lines.

Mr. HUNGERFORD: I did not say that. At least, if I did, I did not intend to say that. What I said was that the cost of handling is not added in the accounts to the charges for the repair of the equipment, although it is naturally taken into account when arriving at a decision regarding where equipment should be repaired.

Mr. POULIOT: Therefore, the railway does not know the correct amount of the repairs when they do not take into consideration the cost of hauling. If the work can be done properly in a small shop at a short distance, I do not see what the railway gains by sending those cars to be repaired at a great distance. It seems to me that the committee should weigh the importance of this matter and make a recommendation to the minister and to the railway in this regard. This is one thing which has been overlooked. I cannot agree with what has been done in the past, because there is a strong tendency towards centralization which takes the work away from able men who work in the small shops and who can perform the work perfectly well, and very often the work is given to the larger shops and they have to be told their trade by the men who work in the smaller shops. I have a further word to say in which I would refer Mr. Hungerford to Mr. Appleton who knows these men well and always speaks very highly of them—the men at the Riviere du Loup shops. On Monday I had the pleasure of meeting Mr. Appleton who represented to me his high appreciation of the work being done by these men. If the railway can save some few thousand dollars each year by having these cars repaired in small shops, it seems to me it would be of benefit to the railway. This is one suggestion I offer to the committee. I hope that the members of the committee will weigh it carefully, and if they think this should be done they should make a recommendation to whom may be concerned in this regard. I have another question to ask, if you will permit me—

Mr. WALSH: Could we settle that question which has been raised by Mr. Pouliot before going on to another? Would that be satisfactory? With certain of the statements made by Mr. Pouliot I am in agreement. I do think that some of the work could be done very satisfactorily in the smaller shops; but I do feel—and I have always taken this stand—that this committee should not, under any circumstances, make recommendations in connection with the operating of the Canadian National Railways.

Mr. FERLAND: Why not?

Mr. WALSH: They have a management. We can make suggestions but to actually make a recommendation is another matter. Personally, I feel that we have in the president of the Canadian National Railways—and I am not suggesting this because it is the day after the 17th of March—one of the best railway operators in the country, and I think the Canadian National Railway is being well operated from the point of view of efficient management. I feel perfectly confident that the management is getting the work done in the cheapest possible way. It is in their interest to do that. I also feel that they are making use of the small shops whenever it is possible for them to do so. I would not like to agree to a recommendation from this committee to anyone that we advise the management to do this or that. The suggestion has been made by Mr. Pouliot, it is in the record, and I think that ought to be quite sufficient as far as this committee is concerned without actually committing ourselves to a definite recommendation to the management for fear it might be interpreted as interference by this committee in the actual operating of the Canadian National Railway system.

The ACTING CHAIRMAN: Apropos of Mr. Pouliot's remarks, I think Mr. Hungerford will agree with me when I say that I have on many occasions asked the Canadian National Railways to do as much work in the shops with which I am very familiar as can reasonably and profitably be done at that particular point. I take it that that is the policy of the railway.

Mr. HUNGERFORD: Certainly it is.

Mr. KINLEY: I do not see why Mr. Walsh should speak ex cathedra to this committee. He seems to have his opinion of the set-up anyway which Mr. Hungerford was trying to put on for the Canadian National Railways.

[Mr. S. J. Hungerford.]

Mr. WALSH: I have never tried to interfere with the management of the Canadian National Railway. I would not do it. I would not be a party to it.

Mr. KINLEY: This matter of repairs, of course, has always been a matter of dispute between the small community and the large community. I realize that equipment costs money, and to do repairs well we must have equipment. You load yourself up with a lot of equipment that costs money, and that is one point in regard to the centralization of repairs. It seems to me, however, that the railways serve the public and they expect to get their business from the public. They are asking for traffic legislation from the public to preserve them and perhaps to salvage them from the position they are in. They want trucks to be curtailed. The truck driver gets his business down in the local community and he gets his repairs done there and the grocer says, "You can carry my groceries from Halifax to some place else." I am not criticizing; I am pointing out to the president of the railway that you must have the stream running both ways, and it is a good thing to have the little fellow in the back country with you. The railroad may think it is saving some money by getting all the repairs done at the central point, but when they maintain the small community it helps to give a balance to them which is good for our economic system. One of the things we are complaining about to-day is that the east and the west have certain problems and industry is centralized in central Canada. If we had more balanced industry in the other parts of Canada it would make for greater satisfaction. I think the railway can do considerable toward distributing their work in parts of Canada where their trade originates. The grain trade originates in the west; and the fish trade originates in the east and in British Columbia also, and we like to see a little of the money coming back. The nearer you spend it at home the more chance you have to get it back.

Mr. HUNGERFORD: May I say that the most economical means of making repairs to equipment is the daily concern of experienced and qualified railway officers. They are giving that matter deep consideration every day.

Mr. WALSH: I do not think we should interfere with them here.

Mr. KINLEY: It is quite a principle, but don't forget that our economy and everything else is changing, and decentralization of industry is becoming one of the big questions of the world to-day.

Mr. POULIOT: I appear here only by tolerance, and therefore I cannot express my views very fully.

Mr. WALSH: I think we ought to consider Mr. Pouliot as quite within his rights to express his views fully.

Mr. POULIOT: Thank you. I wish to thank Mr. Kinley for what he said. In answer to the remarks of Mr. Walsh may I say that I do not mistrust anybody, and although disagreeing with him on certain points it is a great mistake to say that anyone in business is infallible, and the gentleman in charge of the management of the railway cannot pretend to be infallible and might very well receive suggestions even from laymen and take them or leave them. But they have to consider what is suggested to them to see whether they can benefit from those suggestions. I do not wish to add anything to what has already been said about repairs to cars or the cost of hauling, but there is unemployment in the small centres just as there is in the large ones, and by centralizing the work the railway or any other organization gives the public the impression that it is only in the large cities they can find work and, therefore, the number of unemployed is always larger in the big cities.

There is another question I wish to deal with. I heard from a reliable source that the seniority lists of the men working on the Quebec Oriental railway had been padded at the time of the amalgamation of that small railway, and that men who had been working there on part time as day labourers were shown on the list as having seniority as mechanics and that that seniority was shown as existing for twenty or twenty-five years and that these men from New

Carlisle and other points who had no particular training as mechanics were indicated as such and took the place of real mechanics who had earned their seniority but were set back. It seems to me there is a real grievance here, and I place the matter before you, Mr. Chairman, and before the Deputy Minister of Railways and before Mr. Hungerford. I would like the management to make an investigation of this matter in order to verify whether or not such information is true. If it is true, in all fairness to those who have suffered an injustice, those men whose seniority is false should be sent back where they come from, and their places should be given to the skilled men who have suffered a very cruel injustice.

Mr. HUNGERFORD: May I answer at this point? There are more or less recognized rules in regard to the amalgamation of the staff into the organization. The staff on this line and other lines were taken over and given seniority in accordance with these general principles. This subject has been debated a great deal, and it has been investigated, and the status of the men, when the line was taken over, was determined by agreement after investigation by both the representatives of the organization and the management.

Mr. POULIOT: I thank you, Mr. Hungerford, but may I tell you something more: It is that very often the men are betrayed by the leaders of the brotherhood and that is the case when the leader of one brotherhood belongs to a secret society, a society of Odd Fellows—it is very serious when a preference is given to the detriment of others. There is one case in particular of a man who had been sent from New Carlisle or some other point to report as a skilled mechanic, and he had to be taught his trade by the men at Rivière du Loup. He knew absolutely nothing. A complaint was made to the Brotherhood and to the general chairman and nothing was done. That man was protected. This is unfair. If it had been done by the Knights of Columbus I would complain just the same. I do not belong to any secret society. I want fairness extended to all. It is a shame. There are some leaders of brotherhoods who think of themselves only. They wear a big gold chain and they smoke big cigars. They are very bold; they put their feet up on the desk. We have some samples in the Employment Commission. They have done nothing in their life. We have many examples of that. When we write to these people we receive absurd answers, when we get any; and most of the leaders—especially the Trade and Labour Congress and Mr. Mosher—are absolutely no good, and I denounce them bitterly on behalf of the men who work for the railway. The management should not forget that the men who are working for the railway are an important asset; that the lives of all passengers are in the hands of the engineers and firemen. These men should be competent, and those who make repairs and build the cars should be skilled men—men of highest efficiency—so that we may know that when a piece of work is O.K.'d by them it is well done.

Mr. HANSON: Surely you do not mean the leaders of the different railway organizations; the labour organizations elect their own leaders.

Mr. POULIOT: Yes, but they are organized in such a way that those men remain there; they pull the strings and work for their jobs at the expense of the men. The men pay for protection. It is a kind of insurance, but they get no benefit in return. Now, sir there is another point—

Mr. WALSH: Let us finish with the railwaymen and the Odd Fellows.

Mr. HUNGERFORD: During the past few years we have investigated scores, perhaps hundreds of these cases, and I think it will serve the purpose of this committee if Mr. Pouliot will be good enough to give me one single case and I will have it investigated.

Mr. POULIOT: I will send one to you.

Mr. KINLEY: With regard to operating revenue, I have a little matter to bring up. It is a matter of co-operation.

[Mr. S. J. Hungerford.]

Mr. WALSH: We interrupted Mr. Pouliot.

Mr. POULIOT: I have had dealings with the previous government and this one about the salary paid to Mr. Laforce of the Colonization branch. I wonder what that branch is doing. I find it most absurd that there should be one head for colonization, and that man Laforce was in the Immigration department for some time. And he cannot speak French decently. I do not know how he speaks English because I am no judge, but he speaks bad French. He is ignorant. I cannot understand how he has been elected twice as the president of St. Baptiste Society of Montreal. It shows there are many prejudiced people in the metropolis of Canada. I have asked for his salary, but I have received no information. Here is the point that we were discussing—I wish to leave the railway free—it seems to me that this colonization business is just a matter of soft jobs. Mr. Laforce was there and he gave extensive lectures over the radio. They were copied by stencil—lectures about agriculture three thousand years ago—and they were sent to every member. He has done things like that at the cost of the country. And now he is Deputy Minister of Colonization in Quebec, and I understand he has been loaned by the Canadian National Railways to the Quebec government where he is responsible for the starvation and misery and distress of many settlers in my constituency. For instance, some settlers have been placed there,—and he is responsible for that because he accompanied the minister—they have been placed there on rocks, and there are cases where four families have one animal in common, and it is an ox. They have no horses or cows, and they are suffering. This man had a fat job with the Canadian National Railway in charge of colonization and he has been succeeded by Mr. Lanctôt. Mr. Lanctôt, in turn, says that Mr. Laforce is a genius, in order to show he is his successor and he should occupy the same warm bed. It seems to me there should be one head for colonization, and the head must be each provincial minister. This colonization branch is like a corn on the toe—it is responsible for the misery of those settlers. I am carrying on an investigation into those cases, and I am receiving returns daily. I will send a copy of those returns to Mr. Hungerford. It will be practical economy to cut that short.

Mr. HUNGERFORD: I do not think the Canadian National Railway has any direct responsibility in connection with colonization schemes which are carried on by provincial or other governments.

Mr. POULIOT: What is the use of having a colonization bureau?

Mr. HUNGERFORD: The provincial government asked for the loan of this man, and the matter was given consideration, and we loaned him.

Mr. WALSH: Will he return to the Canadian National in due course? Is he just on loan?

Mr. HUNGERFORD: I do not know whether he will return or not.

Mr. WALSH: Has he retired from the Canadian National?

Mr. HUNGERFORD: No.

Mr. WALSH: He must be an exceptionnally good man or the new government of the province of Quebec would not have sent for him.

Mr. HUNGERFORD: We thought it was a compliment.

Mr. POULIOT: As Mr. Hungerford has said the Colonization bureau has nothing to do with the provincial government business. What are they doing?

Mr. HUNGERFORD: They co-operate with all the provincial government and with the Dominion government as well.

Mr. POULIOT: Therefore, they have something to do with it.

Mr. HUNGERFORD: The policies are determined by the various governments and we co-operate.

Mr. POULIOT: Yes, I know; but if they co-operate they have something to do with them; if they have nothing to do with them they do not co-operate. Would you be good enough to explain to me why, if they co-operate and have something to do with it or if they do not co-operate and have nothing to do with it, why they should not be dropped?

Hon. Mr. STEWART: I think he meant determining the policies of the different provinces.

Mr. HANSON: We are out of order. The Colonization department of the C.N.R. in British Columbia has done more for the settlers and given them more information than we could get from the provincial or Dominion agriculturalists or the Soldier Settlement Board; and the Canadian National Railway colonization department has done more for the settling of that country than any other source we have. If there is something wrong in some other part of the country, I do not know about it, but I can speak for what has been done in central and northern British Columbia.

Mr. POULIOT: I suggest that all these men establish themselves in the county of Skeena and leave us alone.

Mr. KINLEY: The federal government last year voted \$200,000 to the advertising of fish, and one would think that we should have the co-operation of all government agencies to bring some results. Going home some time ago on one of the trains of the Halifax & Southwestern Railway the steward asked me if I wanted breakfast, and I told him I did. I said, "Let me see your menu". He gave me a menu which had as a specialty grapefruit and a club breakfast of five or six different kinds at different prices—a general buffet menu. I suppose they are standard menus that are printed somewhere in Montreal and sent down to the coast. I said, "Have you no fish this morning?" And he said, "Yes". I said, "There is none on the menu." I said I would like to have some fried haddock. He went into his little kitchen and he gave me a nice piece of fried haddock, but it was not on the menu, and this was a train travelling from Halifax to Yarmouth. The train was passing through a fishing district but there was no fish on the menu for the reason that the meals are standardized and there is no initiative among the lower officials. If this man had been instructed he could have put specials on the menu including fish. Now, the carrying of fish from the Maritime provinces represents a big item to the railways, and we in the Maritime provinces regard the railways as a splendid medium of advertising our fish. It is good fish. It does not make you go to sleep after dinner, and we think it is a suitable food, and we expect the railways to co-operate. Now, on the main line—

Mr. HOWDEN: You ought to try our restaurant and get a little good fish up there.

Mr. KINLEY: I have often thought of putting on a demonstration in Ottawa to show the proper way to serve fish and in that way to get some advertising all over the country.

Now, on the main lines it is a little better. In the hotels it is awful. I wish some of the management would go down to the Parker House in Boston and see how they cook fish. Any Nova Scotian goes there; he likes to see fish cooked in the best possible way. I do not think the Canadian National hotel in Nova Scotia rises to the occasion. I think it would do well to get some tips from the hotels in Boston, because I regard Boston as the best fish town in the world. If we could get an increase of 10 per cent in fish consumption in Canada it would mean a great deal to Nova Scotia. The best fish I have eaten in this country was on the C.P.R. boat between Digby and Saint John—the Empress boat is well served. I do not know very much about the fish served on the C.P.R. trains, because I do not often travel on the C.P.R. I think we should ask the management of the C.N.R. to see to it this year that their trains serve

[Mr. S. J. Hungerford.]

the foods for which we should excel and that those specials should be well served in the province of Nova Scotia. The railway is a great medium of advertising because they can make the food to order, but one should not have to wait for fish. I am speaking to the management in their own interests. There should be more co-operation in regard to the serving of fish on the railroads and there should be more initiative allowed to the stewards on the train so that they can put such things as fish on the menu, at least, in Nova Scotia, and we can thereby derive some advertising from it.

Mr. RYAN: We have all been digressing, but Mr. Kinley has paid a compliment to the Canadian Pacific as against the C.N.R. and I wish to say I travelled home overnight on the C.P.R. and dined in the buffet car going to Saint John on a Friday—on a day I can eat fish only—and it was impossible to get a bit of fish on the C.P.R. except canned sardines. If any publicity is given, I would like the C.P.R. to adopt the same attitude.

The ACTING CHAIRMAN: This is not exactly the fisheries committee. Perhaps Mr. Kinley can do a service by suggesting to the management of the road that they have the best kind of fish on their menu cards.

Hon. Mr. STEWART: The Canadian National Railway did attempt to establish a special service for fish delivery in the city of Ottawa. They put on specially equipped cars and landed their fish here in excellent condition, and you could go to the cars and get your fish fresh and in proper condition. I understand that the city of Ottawa passed a by-law to the effect that fish could not be sold out of the cars—that they had to be sold over the retail counter.

Mr. DEACHMAN: That is protection.

Hon. Mr. STEWART: That is not protection; that is provincialism.

Mr. DEACHMAN: So is protection.

Hon. Mr. STEWART: It is provincialism.

Mr. DEACHMAN: No, so is protection.

Hon. Mr. STEWART: My hon. friend cannot say it in any other way. It seems to me, if that is so, co-operation might be secured in some other direction. I know that the railways are anxious to get good fish, but when we have to go to the retail shops we do not get the fish strictly fresh.

Mr. KINLEY: Half of our fish in Nova Scotia is going to the United States, and a lot of it goes all the way by rail to Detroit.

Mr. HUNGERFORD: I am rather surprised at Mr. Kinley's stand because I was under the impression that we had gone a long way to advertise fish on our trains and in our hotels in the Maritime Provinces. Certainly, it is our purpose to do that. Now, with regard to these menus, in the east we have lately made a change and referred that matter to those in closest touch with it in order to take care of circumstances such as have been described by Mr. Kinley. I think they will correct the situation. We will do all we can.

Mr. WALSH: Miscellaneous debits—\$7,114,000. What are the principal items making up this amount?

Mr. RYAN: Before we go into that, I asked about debits for retired road equipment. I was told what projects were contemplated in the province of New Brunswick. Were there any projects contemplated that were discarded?

Mr. KINLEY: May I ask that at the next meeting I be provided with a list of men or firms in my riding who were provided with timber contracts last year. I might say also that there was some agitation and complaint of paying 5 cents less in my constituency for ties than in some other parts of the country. I wrote back that I was not very much concerned about that at the moment. I was wondering how much more business we got because we are supplying them 5 cents cheaper.

The committee adjourned to meet at 4 p.m. o'clock.

The committee resumed at four o'clock.

The Acting CHAIRMAN: We were discussing the profit and loss statement. I do not know whether there are any further questions to be asked?

Mr. RYAN: I asked for some information before we adjourned. I do not know whether it is available or not.

The Acting CHAIRMAN: Mr. Ryan asked a question in connection with some retirements or abandonments.

Mr. McLAREN: Mr. Ryan asked whether the \$1,547,000 written off for uncompleted projects included any of the C.G.R. property? The answer is that it does not include any write-off of the C.G.R. property.

Mr. RYAN: And I asked what are the principal items making up the miscellaneous debits of \$7,114,000?

Mr. McLAREN: I have here a statement of miscellaneous debits for the year 1936:

Principal Items:

Writing down non-operating land value.. . . .	\$1,190,152
Unamortized discount and premium on called issues, written off.. . .	5,673,000
Adjusting U.S. Lines depreciation reserves per Interstate Commerce Commission instructions.. . . .	76,554
Miscellaneous items.. . . .	174,684
	<u>\$7,114,390</u>

Mr. McLAREN: I have another question to answer as regards the taxes divided between the United States and Canada. The answer is:

TAXES

	1936	1935
United States.. . . .	\$1,906,614 41	\$1,369,752 21
Canada.. . . .	4,797,674 35	4,630,707 91
Other countries (Great Britain, etc.).. . . .	38,858 38	43,715 80
	<u>\$6,743,147 14</u>	<u>\$6,044,175 92</u>

The amount of \$3,000,000 referred to in the report is the estimated sales tax, payable in Canada only.

Mr. McLAREN: Some member asked a question as to the issuance on property covered by outside underwriters. The answer is:—

Michigan car ferries.. . . .	\$1,700,000
Prince boats.. . . .	4,200,000
Ontario car ferries.. . . .	1,100,000
Canada Atlantic company.. . . .	1,000,000
Prince Edward car ferries.. . . .	1,200,000
	<u>\$9,200,000</u>

The premium paid was \$205,568.

Mr. RYAN: I think the chairman said it was all called for by tender.

Mr. HUNGERFORD: Yes.

Mr. WALSH: Did that miscellaneous amount of \$7,000,000 in the breakdown involve any premium on what might be referred to as called bonds?

Mr. McLAREN: Yes, a certain amount is premium.

Mr. RYAN: Are those tenders for insurance advertised across Canada in the leading papers?

Mr. McLAREN: I could not answer that question.

Mr. RYAN: Would it be possible to find that out subsequently?

Mr. McLAREN: Yes.

[Mr. J. B. MacLaren.]

Mr. WALSH: Has this item been handled in exactly the same way this year as in 1935?

Mr. McLAREN: Which item?

Mr. WALSH: The \$7,000,000, under the breakdown?

Mr. McLAREN: Do you mean the writing off of discount and premium?

Mr. WALSH: Yes, is that the same?

Mr. McLAREN: It is in accordance with the practice we have been carrying out for a number of years.

Mr. WALSH: Is it the same as last year?

Mr. McLAREN: Some of it should have been written out last year. It was all adjusted this year to clear it up.

Mr. WALSH: On page 11 there is another item I desire to connect up with this item. It is the last item of \$881,100.87 for amortization of discount on funded debt. This question has to do with what we are on. Is there any connection between that item and the items you have mentioned under the \$7,000,000?

Mr. McLAREN: Which item?

Mr. WALSH: Amortization of discount on funded debt, \$881,100.87. Has it any relation to the items you read under the \$7,000,000?

Mr. McLAREN: No; because the items under the \$7,000,000 were, you might say, the unextinguished discount or unamortized discount when the bonds were called. If the bonds had been allowed to run to the maturity date the annual discount would have been taken up with the item of \$881,000 in the income account.

Mr. WALSH: There is no new policy introduced in that respect?

Mr. McLAREN: No; I would not say there was.

The ACTING CHAIRMAN: Shall we pass to page 11: Consolidated system—income statement?

Mr. Armstrong reads:—

CONSOLIDATED SYSTEM—INCOME STATEMENT

	Year 1936	Year 1935
Railway Operating Revenues.. . . .	\$186,610,489 38	\$173,184,501 82
Railway Operating Expenses.. . . .	171,477,690 07	158,926,248 66
Net Revenue from Railway Operations.. . . .	15,132,799 31	14,258,253 16
Railway Tax Accruals.. . . .	5,859,062 59	5,209,133 04
Uncollectible Railway Revenues.. . . .	.....	94,037 61
Railway Operating Income.. . . .	9,273,736 72	8,955,082 51
Rent from Locomotives.. . . .	100,842 88	106,062 42
Rent from Passenger-Train Cars.. . . .	217,843 77	220,595 99
Rent from Floating Equipment.. . . .	315 00	4,557 50
Rent from Work Equipment.. . . .	119,715 82	116,961 19
Joint Facility Rent Income.. . . .	1,527,715 54	1,547,892 43
Hire of Freight Cars—Debit Balance.. . . .	1,441,522 85	1,019,933 12
Rent for Locomotives.. . . .	33,731 43	29,290 60
Rent for Passenger-Train Cars.. . . .	282,723 17	199,272 16
Rent for Floating Equipment.. . . .	1,464 14	1,283 49
Rent for Work Equipment.. . . .	26,488 93	7,834 31
Joint Facility Rents—Debit.. . . .	2,248,097 15	2,269,417 11
Net Railway Operating Income.. . . .	7,206,142 06	7,424,121 25
Revenue from Hotel Operations.. . . .	2,859,306 08	2,389,894 82
Expenses of Hotel Operations.. . . .	2,565,972 91	2,163,040 77
Taxes on Hotel Property.. . . .	133,316 13	125,083 29
Net Hotel Operating Income.. . . .	160,017 04	101,770 76

	Year 1936	Year 1935
Income from Lease of Road.. . . .	51,290 09	51,474 25
Miscellaneous Rent Income.. . . .	1,051,523 62	1,027,910 24
Miscellaneous Non-Transportation Property—Credit.. . . .	83,578 74	42,091 36
Dividend Income.. . . .	845,927 15	549,703 80
Income from Funded Securities.. . . .	1,392,717 28	1,422,568 02
Income from Unfunded Securities and Accounts.. . . .	58,253 90	75,110 51
Income from Sinking and Other Reserve Funds.. . . .	228,388 37	538,997 38
Miscellaneous Income.. . . .	417,707 85	222,447 16
Miscellaneous Rents—Debit.. . . .	482,263 29	508,201 79
Miscellaneous Tax Accruals.. . . .	142,483 78	144,407 08
Separately Operated Properties—Loss.. . . .	905,837 02	1,373,060 49
Miscellaneous Income Charges.. . . .	989,870 82	1,328,253 44
Miscellaneous appropriations of Income.. . . .	.....	87,636 11
Income Available for Fixed Charges.. . . .	8,975,091 19	8,014,635 82
Rent for Leased Roads.. . . .	1,372,228 69	1,372,712 38
Interest due Public on Long Term Debt.. . . .	49,184,622 87	53,468,792 22
Interest on Unfunded Debt.. . . .	206,802 59	182,125 15
Interest on Government Loans for refunding.. . . .	527,682 21	783,671 47
Amortization of Discount on Funded Debt.. . . .	881,100 87	1,085,516 27
Total Fixed Charges.. . . .	52,172,437 23	56,892,817 49
Net Income <i>Deficit</i> before Interest on Dominion Govern- ment Loans, transferred to Profit and Loss.. . . .	\$ 43,197,346 04	\$ 48,878,181 67

The ACTING CHAIRMAN: Is there any discussion on page 11?

Mr. HANSON: Why the increase in taxes on hotel properties?

Mr. McLAREN: An increase of \$8,000, \$4,000 for the Chateau Laurier.

Mr. HANSON: City or provincial?

Mr. McLAREN: City.

Mr. RYAN: I thought government property was exempt from taxation?

Hon. Mr. HOWE: Not Canadian National Railway Company property.

Mr. KINLEY: Does this operating income take into consideration the Vancouver hotel?

Mr. McLAREN: No; that is a non-operating property.

Mr. KINLEY: You deal with some expenses in connection with it.

Mr. McLAREN: The revenues and expenses for hotels refer only to the operating hotels. The Vancouver hotel had not yet been opened, nor is it completed.

Mr. KINLEY: Do you intend to open it?

Mr. HUNGERFORD: Some time.

Mr. RYAN: Do I understand that the railways pay municipal taxes?

Hon. Mr. HOWE: We make arrangements with the provinces of Nova Scotia, New Brunswick and Prince Edward Island with regard to the taxes paid to each province for road properties. For the hotels we pay the usual municipal taxes.

Mr. RYAN: The hotels come under the different category?

Hon. Mr. HOWE: Yes.

Mr. RYAN: Is there any possibility of building an hotel in Saint John?

Mr. KINLEY: What are the taxes paid on the Vancouver hotel?

Mr. McLAREN: About \$50,000 per year.

Mr. KINLEY: What do you pay on the Nova Scotian hotel?

Mr. McLAREN: \$3,000 increase.

Mr. RYAN: The tax is higher.

Mr. McLAREN: It is \$13,000 on the Nova Scotian.

Mr. KINLEY: How do you account for the difference?

[Mr. J. B. MacLaren.]

Hon. Mr. HOWE: There is quite a difference in the structures.

Mr. KINLEY: The Vancouver hotel is not even opened yet.

Mr. RYAN: The property is there.

Mr. KINLEY: It is only under construction now. You are going to pay a bigger amount than that a little later on.

Mr. McLAREN: The Nova Scotian hotel is a structure costing about \$2,500,000 and the Vancouver hotel about \$8,000,000.

Mr. KINLEY: When finished?

Mr. McLAREN: No, at the present time.

Mr. WALSH: Probably my honourable friend would suggest that when the policy of the present government has been in effect for another two or three years that hotel will be upon a paying basis.

Mr. DEACHMAN: There is a sharp decline in the interest due on long-term debt. Is that due to refunding?

Mr. McLAREN: Yes, at a lower rate of interest.

Mr. DEACHMAN: Is there much prospect of that continuing as hopefully as in 1935 and 1936?

Mr. McLAREN: I would think so, in view of bond values depreciating, and lower rates of interest.

Mr. DEACHMAN: You will be a long time in getting rid of some of these perpetual ones.

Mr. McLAREN: Yes. There is a 4 per cent issue of \$60,000,000 callable issue at par. At the present time, the question of the premium on sterling prevents any action being taken.

Mr. WALSH: The increase in expenses of hotel operations is due to an increase in the number of those who have been employed, I presume?

Mr. McLAREN: It is due to an increase in business.

Mr. WALSH: You have not the statement showing the profit and loss on the individual hotels?

Mr. McLAREN: Yes, we have it for each hotel for 1936 and for the fourteen years.

Mr. WALSH: Do any of the hotels showing a loss previous to this year now show a profit?

Mr. McLAREN: Jasper Park Lodge showed a profit in 1936 of \$4,500 as compared with the previous year's loss of \$7,900.

Mr. WALSH: But what about hotels in the commercial centres, like the Chateau Laurier?

Mr. McLAREN: The Chateau Laurier has shown an increase in net over and above taxes and operating expenses in 1936 of \$11,000 over 1935.

Mr. RYAN: A loss?

Mr. McLAREN: I said an increase, an improvement. In other words the net for the Chateau Laurier in 1936 was \$183,000 and in 1935 \$172,000 over and above taxes and operating expenses.

Mr. KINLEY: What was the operating profit?

Mr. McLAREN: In 1936, \$183,000, and in 1935, \$172,000.

Mr. KINLEY: And taxes?

Mr. McLAREN: Taxes were \$63,000 in 1936.

Mr. RYAN: Has there been any increase in the salaries paid to the Chateau Laurier employees?

Mr. McLAREN: The capital investment is \$8,600,000. Did you ask if there had been any increase in wages of employees of the Chateau Laurier?

Mr. RYAN: Yes. I have heard complaints that the employees are not paid very well. Is there any increase for the employees in contemplation?

Mr. McLAREN: I could not answer that question.

Mr. BEAUBIEN: They come under the Minimum Wage Act, do they not?

Mr. McKINNON: They will, when it comes into effect.

Mr. HANSON: What is the figure for the Saskatoon hotel?

Mr. McLAREN: After operating expenses and taxes \$6,155 in 1936 as against \$5,437 in 1935.

Mr. HANSON: Is that the net profit after taxes have been paid?

Mr. McLAREN: After taxes have been paid.

Mr. HANSON: Not the interest on the bonds?

Mr. McLAREN: No.

Mr. RYAN: Is there any uniform scale of wages for hotel employees throughout the country?

Mr. McLAREN: I could not say.

Mr. HUNGERFORD: No.

Mr. RYAN: That depends on the conditions obtaining in each place, I suppose?

Mr. HUNGERFORD: Yes.

Mr. RYAN: Has any objection been voiced to the salaries paid to the employees in the Chateau Laurier?

Mr. RYAN: Some complaints came up last year.

Hon. Mr. HOWE: A complaint came up and I looked into it and found they were being paid better than the minimum wages and being paid the best wages of any hotel in Ottawa. It is difficult to analyse hotel wages because gratuities play a big part.

Mr. McKINNON: The gratuities are not included in the wages?

Hon. Mr. HOWE: No.

Mr. KINLEY: What became of the big hotel in Paris?

Hon. Mr. HOWE: It is rented.

Mr. KINLEY: Does it pay its way?

Mr. SMART: There is a little net profit from it each year.

Mr. HUNGERFORD: It is under a long term lease. The rent has been adjusted somewhat under French law. It is paying a small return at the present time.

Mr. WALSH: The item of income from sinking and other reserve funds on page 11 of the report shows a considerable decrease this year. Is there any particular reason for that decrease?

Mr. McLAREN: It is due to a reduction in sinking funds, due to bonds being called on maturing.

Mr. McLAREN: It has been called to my attention that I said there was a profit in the operation of the Saskatoon hotel after operating expenses and taxes of \$6,155 in 1936, as against \$5,437 in 1935. I should have said there was a loss of \$6,155 in 1936 as against a loss of \$5,437 in 1935.

Mr. WALSH: Coming back to the item of amortization of discount on funded debt, of \$881,000 in 1936, and \$1,085,000 in 1935 and \$827,000 the year before, how do you account for the reduction as between 1935 and 1936?

Mr. McLAREN: I will have a statement made up, Mr. Walsh, and will give you the answer later.

The ACTING CHAIRMAN: Any further questions?

[Mr. J. B. MacLaren.]

Mr. McKINNON: With regard to the item of hire of freight cars and the item of rent for passenger-train cars, does the latter item refer to Pullman equipment?

Mr. HUNGERFORD: No. The principal item there, is the hire of freight cars. Freight cars are interchanged with other railways all the time, and because we handled more business, we got more foreign cars on our road. We pay one dollar a day for every foreign freight car on our lines.

Mr. KINLEY: On the first page of the explanatory matter you claim that you will be able to collect the loans under one head and save money in accounting and operating. Have you any idea of the amount you can save?

Mr. KINLEY: In your new setup.

Hon. Mr. HOWE: Perhaps I can answer that question. The saving in refinancing is an intangible thing due to the fact that we do not obscure the real position of Canada. It is simply an intangible improvement we might get from putting the picture accurately before the people instead of including another billion and a half dollars that now appears to the casual observer. As to the matter of saving in accounting, putting all the companies into one corporate structure allows us over a period to merge them and save the cost of keeping books for one hundred different companies as we do to-day; but that can be worked out only over a period of time.

Mr. DEACHMAN: Over a period of time would it affect that item of interest for long term debt? A better accounting setup of railway accounts would tend to give the buying public a clear understanding of railway affairs.

Hon. Mr. HOWE: We hope so.

Mr. KINLEY: In other words, any advantage there is would be on the side of accounting, a new setup?

Hon. Mr. HOWE: Yes.

Mr. WALSH: On the last item would it be possible to have a copy of the balance sheet and the income statement that we are now considering, and the profit and loss statement for 1936, shown as it will be shown when Bill No. 12 becomes operative next year.

Hon. Mr. HOWE: That may be done very simply by setting up the balance sheet in the Bill.

Mr. WALSH: Would it be possible to have that inserted in the minutes of this meeting so that we could have it before us at our next meeting?

Hon. Mr. HOWE: We could put it on a sheet of paper and distribute it.

Mr. SMART: The balance sheet was tabled when the committee was in session previously.

Mr. WALSH: Yes. We have that in our minutes. It is the income statement and the profit and loss statement to which I refer.

Mr. SMART: Yes.

The ACTING CHAIRMAN: If there are no further questions on page 11 we shall pass to page 12: Operating Revenues.

Mr. WALSH: Is it necessary to have our good friend read all these items? Can we not read them ourselves?

The ACTING CHAIRMAN: If it will facilitate the work of the committee we can dispense with the reading of the items. Are there any questions in regard to page 12: Operating Revenues?

Mr. WALSH: With regard to the Demurrage item of \$270,000, is there a separate and distinct company that looks after that detail for the railway or does the railway look after that itself?

Mr. ARMSTRONG: The railways look after it.

Mr. WALSH: Is there a firm in Montreal called the Canadian Car Demurrage Company?

Mr. McLAREN: I think the company or association to which you refer is the one that checks up the railways to see that the demurrage rules are being carried out.

Mr. WALSH: That association does that work for both railways?

Mr. McLAREN: Yes.

Mr. WALSH: There is no connection between one railway and the other?

Mr. McLAREN: Yes, through the association.

Mr. WALSH: And no reference to the amount here?

Mr. McLAREN: No; this is the amount collected from industries for demurrage on freight cars.

Mr. WALSH: Do you collect it?

Mr. McLAREN: We collect it from the consignee or shipper.

Mr. WALSH: What is the function of the company or association?

Mr. McLAREN: They have inspectors whom they send to different points on both railways to check up per diem records to see that the regulations are not evaded in regard to the collection of demurrage charges on cars that might be delayed in loading or unloading.

Mr. WALSH: Who pays the salaries connected with that company?

Mr. McLAREN: The railways contribute to the upkeep of the association.

Mr. WALSH: On the basis of the amount collected or on a 50-50 basis.

Mr. McLAREN: It is on an agreed basis, but what that basis is I could not say at the present time, although I understand it is on a revenue basis.

Mr. KINLEY: As to maritime rates, which way do you haul the most from? Do you haul more from Montreal to the Maritimes or from the Maritimes to Montreal?

Mr. HUNGERFORD: I could not answer that question off-hand.

Mr. KINLEY: The freight rates reduction is only one way, is it not?

Mr. HUNGERFORD: No.

Mr. KINLEY: This reduction is on west-bound freight, is it not?

Mr. SMART: West-bound freight and local.

Mr. BEAUBIER: Local both ways?

Mr. SMART: Local inside the province.

Mr. KINLEY: Oh no.

Mr. SMART: Yes.

Mr. KINLEY: That is a competitive thing to keep the ships out.

The ACTING CHAIRMAN: It is paid, nevertheless.

Mr. KINLEY: But they have to compete with the vessels. If they do not, they do not get any freight.

Mr. RYAN: When the Duncan commission made its findings it awarded certain reductions starting with a certain period.

Mr. HANSON: What was the net profit and loss on the telegraphs and telephones last year?

Mr. McLAREN: We have not got the information here at the moment.

Mr. HANSON: I thought you would separate the account kept of it?

Mr. McKINNON: How do you allocate the revenue of these pooled trains that you are operating in conjunction with the C.P.R.?

[Mr. J. B. MacLaren.]

Mr. McLAREN: On a 50-50 basis until there is an agreement made as to what the basis shall be. That basis will be arrived at after a test period to find out what the percentages should be.

Mr. McKINNON: You have not arrived at any decision yet?

Mr. McLAREN: Not yet.

Mr. HANSON: Has that arrangement proven a success?

Hon. Mr. HOWE: Do you want the answer to your first question, Mr. Kinley?

Mr. KINLEY: Yes.

Hon. Mr. HOWE: The Maritime freight rates reduction applies on local traffic on eastern lines between Sydney and Newcastle. Then traffic moving outward westbound all rail, and traffic moving outward by rail and sea, that is from points on eastern lines to ocean ports for example, Fredericton to Liverpool—

Mr. KINLEY: Liverpool, Nova Scotia?

Hon. Mr. HOWE: No, overseas via Saint John. The rate effected should be that applicable from Fredericton to Saint John.

Mr. KINLEY: You have not the amount of east and west freight moving?

Hon. Mr. HOWE: No.

Mr. KINLEY: Do you mean to say that freight is hauled more cheaply between stations in Nova Scotia than in Ontario?

Mr. SMART: Yes, a twenty per cent reduction is allowed on local traffic.

Mr. KINLEY: Twenty per cent?

Mr. SMART: Yes.

Mr. HANSON: I was asking if the pooled trains had proved satisfactory to our railroads?

Mr. HUNGERFORD: We have saved a considerable amount of money by that arrangement.

Mr. HANSON: So you think that arrangement has proven satisfactory?

Mr. HUNGERFORD: Like everything else of that kind it is satisfactory in some respects and not quite so satisfactory in other respects. On the whole it is satisfactory.

Mr. DEACHMAN: With regard to the item at the bottom of the page in connection with traffic, some years ago there was considerable criticism of the C.N.R.—

Hon. Mr. HOWE: To what item do you refer?

Mr. DEACHMAN: The item of Traffic. I would like to know the percentage which traffic bears to total operating revenues, and how that compared with other railways?

Hon. Mr. HOWE: You will find that on page 30.

Mr. KINLEY: That simply gives the distribution of the operating dollar, does it not?

Hon. Mr. HOWE: Yes.

Mr. DEACHMAN: That is not exactly what I am asking for.

Mr. ARMSTRONG: That represents the percentage of operating revenues, 2·5 per cent.

Mr. DEACHMAN: The total operating revenue dollar?

Mr. ARMSTRONG: 2·5 per cent of the revenue dollar.

Mr. KINLEY: How does that compare with other railways. Have you the traffic expenses of the C.P.R.?

Mr. ARMSTRONG: We can get it.

Mr. DEACHMAN: Is there any difference between your traffic item and that of the C.P.R.?

Mr. ARMSTRONG: I understand the C.P.R. include their steamships traffic expense in traffic expenses. Their traffic expenses run considerably higher per dollar than ours, but the explanation is that they include a certain amount of ocean steamships traffic expenses.

Mr. KINLEY: There has been considerable confusion on the trains by reason of the fact that you were selling the first class ticket, but if one wanted to go in the parlour car one had to signify his intention at the ticket office before one bought his ticket, and then one had to buy another kind of ticket. Also commercial travellers on their tickets could not go in the parlour car. They had to buy another ticket in order to get into the parlour car.

Mr. HUNGERFORD: That is correct. On the first of June last year the old basic rate of 3.45 cents per mile, which applied to both parlour and sleeping cars and coaches, was reduced for coaches to 3 cents per mile, so that at the present time the basic schedule per mile for coaches is 3 cents per mile.

Mr. KINLEY: One can ride in a coach for 3 cents per mile?

Mr. HUNGERFORD: Yes. And if you are riding in a parlour car you pay 3.45 cents.

Mr. KINLEY: You cannot buy a parlour car ticket with the lowest rate ticket?

Mr. HUNGERFORD: No. You have to pay the higher rate.

Mr. KINLEY: Then I guess the commercial travellers travelling at reduced rates could not get into the parlour car on their reduced tickets?

Mr. HUNGERFORD: The commercial traveller travels on a special rate, both on the C.P.R. and C.N.R.

Mr. KINLEY: Of course there is no parlour car except on main line trains, but when the traveller gets to the main line he finds he cannot get into the parlour car, and I think the matter should be explained to a person when buying a ticket, especially if it is an innovation.

The ACTING CHAIRMAN: He can get into the parlour car, but has to pay a little more in addition.

Mr. RYAN: A commercial traveller will buy a commercial ticket, anyway.

Mr. HUNGERFORD: Commercial men travel on a special rate.

Mr. RYAN: It costs a commercial man a few cents more to travel in a parlour car. The conductor says it will be 30 cents to 40 cents more, and he pays it.

Mr. HUNGERFORD: There is a higher basic rate for travelling in parlour cars than in coaches.

Mr. KINLEY: What is the purpose behind it?

Mr. HUNGERFORD: It is a difficult thing to explain. It was determined in the United States and we followed suit to a certain extent. We did not go as far as they did, but went as far as Canadian conditions warranted.

Mr. KINLEY: Does it help the revenue?

Mr. HUNGERFORD: That is one of those things it is impossible to determine. They do not know in the United States whether the reduction on passenger rates has produced more revenue because two factors acted in conjunction, namely, the improvement in business conditions and the stimulus occasioned by a reduction in fares. No one can tell how much to attribute to one factor or the other.

Mr. McKINNON: But the increase in traffic has been considerable, has it not?

Mr. KINLEY: You lowered the rate on sleeping cars?

[Mr. J. B. MacLaren.]

Mr. McKINNON: You lowered the fares for sleeping cars and also the dining car rates?

Mr. HUNGERFORD: Not the dining cars.

Mr. McKINNON: I mean the meals.

Mr. HUNGERFORD: The rates on dining cars are adjusted from time to time.

Mr. ARMSTRONG: Coming back to the question of traffic expenses I find that on the Canadian National for 1936 the rate is 2·54 per cent. On the larger roads in the United States it was 2·47 per cent of operating revenues and on the C.P.R. it was 5·17 per cent. The explanation with regard to the C.P.R., as we understand it, is that it includes some steamship traffic expenses.

Mr. DEACHMAN: How does your transportation ratio compare with the other road?

Mr. ARMSTRONG: Ours was 43·4 per cent of 1936 operating revenues—the corresponding figure for the C.P.R. was 35·83 per cent.

Mr. DEACHMAN: The difference there would be due to density of traffic?

Mr. ARMSTRONG: Yes, that is one of the large factors.

Mr. DEACHMAN: What other factor is there?

Mr. ARMSTRONG: Accounting differences in setting up the expenses.

Mr. DEACHMAN: The main thing would be the traffic density?

Mr. ARMSTRONG: Yes.

Mr. DEACHMAN: What is the relative traffic density between the two Canadian lines?

Mr. ARMSTRONG: I have not got it for this year, but in some years it would run up to 15 or 16 per cent. Last year it was 7½ per cent.

Mr. DEACHMAN: The difference between the two?

Mr. ARMSTRONG: Yes. The C.P.R. was greater in freight traffic density by 7½ per cent. These are 1935 figures. In passenger traffic density they were 20 to 40 per cent greater than the C.N.R. For average haul they are greater than the C.N.R. by 12 per cent to 30 per cent. Moreover the C.P.R. have a much better average haul than the C.N.R.

Mr. DEACHMAN: On account of the light traffic?

Mr. HANSON: And on account of their connection with steamships.

Mr. ARMSTRONG: That may have an effect. There are many factors involved.

Mr. KINLEY: I travel between here and Montreal frequently and on some mornings I am the only man in the parlour car and have two porters waiting on me.

Mr. HUNGERFORD: The demand for parlour car service varies from day to day.

Mr. HOWDEN: I was going to address a question along that line to our President: The chief complaint of those who are constantly attacking our railroads generally is the duplication that still exists between the two roads, and I have heard there is a movement on foot to reduce to some extent at all events this duplication. May I ask the President if that matter is being considered?

Mr. HUNGERFORD: To what duplication do you refer?

Mr. HOWDEN: Between here and Montreal. Probably they have eliminated duplication between those points now, but in western Canada two trains will leave their depots at the same time and run parallel to each other and arrive at their respective destinations at the same time.

Mr. HUNGERFORD: In nearly all cases these trains that leave common termini, serve intermediate points that are widely separated. That is true between here and Montreal. Our principal route, or the only one we have at the

present time, serves different towns from those served by the C.P.R. The C.P.R. have two lines, of course.

Mr. HOWDEN: But you have a lot of through passengers?

Mr. HUNGERFORD: Certainly.

Mr. HOWDEN: If the time element were broken up would it not be more satisfactory than having cars running over the two roads at the same time?

Mr. HUNGERFORD: If the service were on one road only, there would be no local service on the other line. These trains serve a double purpose; they provide a means of getting from one terminus to another as well as serving local communities.

Mr. HOWDEN: I mean if a train ran over one line during a certain period of time and another train over the other line a little later instead of the two trains leaving their respective starting points at the same time and running over the two lines during the same period of time, would that not be more satisfactory?

Hon. Mr. HOWE: I beg your pardon?

Mr. HOWDEN: I say if a train ran over the C.P.R. line between ten o'clock and one o'clock in the morning, and another train over the C.N.R. commencing at twelve o'clock or one o'clock to four o'clock, it would divide the traffic between the two roads and still serve the public efficiently.

Mr. HUNGERFORD: It would not serve the local traffic. For instance, between Montreal and Ottawa the people generally come into Ottawa or Montreal, to do their business, and they want to arrive in the city at a suitable time and leave at a suitable time after a sufficient interval in which to do their business. That is what occurs in connection with the morning train from Montreal. It arrives here about noon and leaves at 4.30 p.m., taking those people back to the intermediate points and also serving the local passengers at the other end who want to spend time in Montreal. The C.P.R. train going to Montreal this afternoon leaves at 3.30 p.m. and ours leaves at 4.30, which is the latest hour at which you can make connection with the Ocean Limited and other trains. If we ran it later we would miss connections with those trains.

Mr. HOWDEN: Is the bulk of the traffic between local intermediate points?

Mr. HUNGERFORD: On the whole it splits about 50-50.

Mr. KINLEY: In railroading is the non-running of a train a big saving or are the fixed charges so important? I mean is it a big saving to take a train off, considering the other factors?

Mr. HUNGERFORD: It does not make very much difference from the standpoint of maintenance. If you are going to run one fast train you have to maintain a suitable standard. The real saving is in the cost of operating the trains.

Mr. KINLEY: Is that a big factor?

Mr. HUNGERFORD: Yes.

Mr. DEACHMAN: Can you tell us why the maintenance of equipment and of way and structures over a period of the C.N.R. is higher than on the C.P.R., referring particularly to the period since the depression came? Prior to that time your two maintenance ratios were fairly close, but with the coming of the depression the C.P.R. cut its ratios very sharply on maintenance of way, structures and equipment while yours did not fall off as rapidly. Have you any explanation for that?

Mr. HUNGERFORD: It is a question of policy, whether you want to take too much out of your property in a given time or not.

Mr. DEACHMAN: That is to say, if you had cut yours you would have had more maintenance to make up later?

[Mr. J. B. MacLaren.]

Mr. HUNGERFORD: Yes.

Mr. KINLEY: Then your equipment is in better shape than that of the other road?

Mr. HUNGERFORD: I have no information as to the condition of their equipment, but I know we did not spend any more than was reasonably necessary.

Mr. KINLEY: They seem to be running older cars.

Mr. HUNGERFORD: I have no detailed information in regard to that.

Mr. DEACHMAN: But the difference between the two ratios maintained by you and the C.P.R. would make a vast difference in the operating ratio?

Mr. HUNGERFORD: The accounts are not made up on a uniform basis. C.N.R. accounts are strictly in conformity with Interstate Commerce Commission regulations.

Mr. DEACHMAN: And in that connection I have a first class complaint. I would like to see the accounts of the two roads made up on precisely the same basis so that a man as stupid as I am could ascertain the true facts with regard to each road.

Hon. Mr. HOWE: We have started the ball rolling in that direction. I took the matter up with both railroads about a year ago to ask for revision of the Canadian regulations with regard to Canadian railways, and they were generally in accord with the idea. We appointed a committee consisting of a man from our department, a representative from the Bureau of Statistics, a representative from the C.P.R., a representative from the Canadian National and representatives from other roads in Canada under federal jurisdiction, and we hope within a reasonably short time to bring out a set of regulations for accounting that will make all reports uniform.

Mr. DEACHMAN: The question of traffic expense was under discussion a few years ago and there was criticism of the C.N.R. That is why I asked the question about the basis of comparison, and we have had the point brought out that the C.P.R. has steamship traffic in that account. Surely both railroads should be placed on precisely the same accounting basis in order that the public can be informed as to the real facts. Colonization is under different classifications in the two railroads, and the pension systems were treated differently, and one would have to be a Philadelphia lawyer as well as a member of parliament in order to find out the real facts under the circumstances.

Hon. Mr. HOWE: What happened, I think, was that there was a regulation issued in 1917 covering accounting which was rather loosely drawn, but the Canadian National because of having lines in the United States has come more and more to follow the Interstate Commerce Commission rulings, which are the most advanced of any to-day. The C.P.R. continued to follow the old method pretty well.

Mr. DEACHMAN: Their lines in the United States are operated as separate companies?

Hon. Mr. HOWE: Yes, and they have no direct interest in carrying out their accounting in accordance with the practice of the Interstate Commerce Commission.

Mr. DEACHMAN: We all recognize that there is a very clear distinction as between the two railroads, with differences in the density of traffic, the length of haul, and that sort of thing, which are factors ultimately in these operating ratios, but I would like to see the accounts of both railroads put upon such a basis that we could present them to the House of Commons or to this committee in an understandable form.

Hon. Mr. HOWE: Within a reasonably short time we hope to set up accounting regulations that will conform with your wishes in the matter.

Mr. RYAN: Some years ago the train from Saint John to Halifax left Saint John at 11 o'clock and arrived at Halifax early in the morning. That run was discontinued, causing great inconvenience particularly to commercial travellers. I wondered whether you had given consideration lately to the advisability of running that train again in view of the fact that business is picking up and revenues are increasing on the Atlantic division?

Mr. HUNGERFORD: We ran the night train between Saint John and Halifax for many years, through good times and bad, and the returns indicated that it earned about one half of its cost. There is nothing to indicate that the earnings would be any greater if the run were restored.

Mr. RYAN: If you tried it might it not prove otherwise?

Mr. HUNGERFORD: We have already given it two or three different trials. It has been taken off and put back and taken off again, and the uniform result was that the earnings were insufficient.

Mr. KINLEY: There was no connection with Boston by that train?

Mr. HUNGERFORD: No.

Mr. RYAN: I was concerned about people travelling not only from Saint John to Halifax but from intermediate points to Halifax.

Mr. HUNGERFORD: It is a measure of economy.

Mr. RYAN: If it leaves at noon there is no mail accommodation; the service is more or less antiquated so far as mail is concerned.

Mr. HUNGERFORD: The train service during the day makes all the essential connections and provides a connection with Boston.

Mr. RYAN: How long is it since you tried out what I have suggested?

Mr. HUNGERFORD: The night train?

Mr. RYAN: Yes.

Mr. HUNGERFORD: Four or five years ago.

Mr. RYAN: Then you cannot say how the revenue has increased on the Atlantic division.

Mr. HUNGERFORD: That train ran for several years during good and bad times, and the earnings were just about the same throughout the whole period.

Mr. KINLEY: There are two ways to get to Saint John. All the rest of the Nova Scotia people slip across the bay.

Mr. RYAN: That is the C.P.R.?

Mr. KINLEY: From any part of western Nova Scotia you can get into Digby in three or four hours.

Mr. HUNGERFORD: We would put the train back on the night run if we could get enough revenue to meet the expense of running it.

Mr. RYAN: Are conditions such that you are still losing money running trains on other lines?

Mr. HUNGERFORD: Yes, because the passenger train service cannot be reduced any more. If you are going to keep a line open at all you have to provide a minimum service.

Mr. RYAN: Is the run from Montreal to Ottawa a paying investment?

Mr. HUNGERFORD: I think on the whole it earns considerably more than the train we have been discussing.

Mr. RYAN: Would you consider giving it another trial? I would like to see it tried out, if possible.

Mr. HUNGERFORD: We will give it consideration, but the whole history of that train is not very hopeful.

[Mr. J. B. MacLaren.]

Mr. HANSON: How does our road compare with number one American roads or number one roads on the continent with regard to operating ratio?

Mr. ARMSTRONG: Considerably lower, on account of the tremendously higher freight and passenger density on the United States lines. Their operating ratio last year on the average was only 72 per cent and ours was 91 per cent; that is the average of all class 1 roads.

Mr. HUNGERFORD: Year in and out, our traffic density represents about 45 per cent of the average of the United States roads.

Mr. DEACHMAN: What is the lowest operating ration in the United States?

Mr. ARMSTRONG: A single railway?

Mr. DEACHMAN: Yes, is it the Delaware and Hudson?

Mr. ARMSTRONG: We will let you know.

Mr. BARBER: Please explain what is meant by switching revenue?

Mr. McLAREN: That is switching performed around terminals such as Montreal, Toronto, and other large terminals for which a charge is made.

The ACTING CHAIRMAN: If there are no further questions to be asked with respect to page 12 we shall pass on to page 13.

Mr. KINLEY: Just a moment, please. With regard to telegraphs and telephones, does the telegraph give you a surplus?

Mr. HANSON: I asked about that a while ago.

Mr. ARMSTRONG: It depends upon how you look upon the telegraphs. As an added facility to the railway undoubtedly it gives us considerable net revenue.

Mr. KINLEY: Does the commercial part pay?

Mr. ARMSTRONG: You have to have poles and wires for railway operation, and as an added facility, the commercial department has a substantial net earning. It is rather difficult to divide it between railway and commercial, and you have to do it arbitrarily; but as an added facility, it has a substantial net earning.

Mr. BARBER: Is there any tying co-operation between telegraphs and telephones of the C.P.R. and C.N.R. in small towns where neither one pays?

Mr. HUNGERFORD: Not yet; but we are seeking to bring it about.

The ACTING CHAIRMAN: We will pass to page 13: Maintenance of Way and Structures Expenses. Are there any questions to be asked with regard to that group of items?

Mr. ELLIOTT (Kindersley): There is an item of \$19,000 odd for insurance. To what does that refer?

Mr. McLAREN: Offhand I do not know.

Mr. KINLEY: To what does the item of \$301,000 odd for Injuries to Persons refer?

Hon. Mr. HOWE: What item?

Mr. KINLEY: Injuries to persons, \$301,000.

Mr. HOWDEN: Liability, I suppose.

Mr. KINLEY: Is that a compensation charge?

Mr. ARMSTRONG: That would principally represent liability to employees.

Mr. KINLEY: You do not insure but you compensate?

Mr. ARMSTRONG: That is workmen's compensation.

Mr. KINLEY: That is what your compensation to employees of the railroad costs?

Mr. ARMSTRONG: No; that is only as to maintenance of way. You will find further items of Injuries to Persons under maintenance of equipment and transportation.

Mr. KINLEY: Do you know what your rate amounts to?

Mr. ARMSTRONG: I could not say offhand.

Mr. HANSON: Does the item include payment to anyone hurt on the train?

Mr. ARMSTRONG: Yes.

Mr. KINLEY: Are you not insured against injuries to travellers?

Mr. ARMSTRONG: No, we are not.

Mr. HANSON: It is paid in each individual case?

Mr. HUNGERFORD: Yes.

Mr. McKINNON: I note quite a vast difference in the prices paid for ties in 1935 and 1936. Does that mean that there are more ties purchased or that a higher price is being paid for them?

Mr. HUNGERFORD: Both price and quantity are involved.

Mr. KINLEY: I would like to find out what the compensation costs. It is quite a moot question as to whether paying the losses or paying premiums is the best thing to do. All other industries pay premiums.

Mr. DEACHMAN: But they are bigger.

Mr. KINLEY: They assess the loss. That is actual. They do not put a rate on; it is actual loss. Could you furnish that information please, as to the cost of your compensation rate?

Mr. ARMSTRONG: You mean the amount paid in compensation proportionate to the revenues or expenses?

Mr. KINLEY: Yes, it is on your payroll.

Mr. ARMSTRONG: We have it included with several other accounts. That is all loss, damage and injury, and it works out at 1.28 per cent of the revenue for the Canadian National as compared with 1.32 per cent for class one roads.

Mr. KINLEY: That is a very low rate?

Mr. ARMSTRONG: Yes.

Mr. HANSON: The item of Public Improvements—Maintenance is about \$200,000 different this year as compared with last year. What is the main increase?

Mr. McLAREN: We will look it up and give it to you in a moment or two.

Mr. ELLIOTT (*Kindersley*): In connection with the erection of snow fences have you had any claims for damage to property as the result of the use of snow fences?

Mr. HUNGERFORD: We have received such claims at different times from different places but I cannot give you anything definite about that.

Mr. McKINNON: Mr. Chairman, I am still rather curious about the tie situation. I asked if that difference meant more ties purchased or a higher price paid. What is the average price of ties last year and this year?

Mr. McLAREN: In 1936 treated ties were \$1.26 as against \$1.35 for 1935. Untreated ties in 1936 cost 56 cents as against 54 cents.

Hon. Mr. HOWE: Averaged over the whole system.

Mr. McLAREN: Yes.

Mr. McKINNON: Most ties are treated nowadays, are they not?

Mr. HUNGERFORD: No; I suppose about one-third.

Mr. HANSON: Have you found that item about public improvements—maintenance?

Mr. McLAREN: No, not yet.

The ACTING CHAIRMAN: If there are no further questions to be asked with regard to the items appearing on page 13, we will pass to page 14: Maintenance

[Mr. J. B. MacLaren.]

of Equipment Expenses. Are there any questions to be asked with respect to the items on this page?

Mr. KINLEY: What do you mean by Floating Equipment—Repairs.

Mr. McLAREN: That refers to ferry boats between say Windsor and Detroit and out in the West; also car ferries that we have running between Vancouver and Victoria.

Mr. KINLEY: Does that item include the Prince Edward Island ferry?

Mr. McLAREN: Yes.

Mr. KINLEY: Do you know that the Prince Edward Island ferry will not carry a truck except forward? It is just wide enough for a car, but a truck cannot go on that ferry.

Mr. HUNGERFORD: I appreciate that; but the request at the time the ferry was built was for passenger carrying cars to be accommodated. The car ferry was built and we made provision for passenger cars. Since then the trucks want to use the ferry, and to be quite frank, I do not know why we should carry a competitor even if we could.

Hon. Mr. HOWE: Why should the railway carry trucks?

Mr. KINLEY: Supposing they found a way to be carried over and you did not have any part of it?

Mr. HUNGERFORD: We cannot take the trucks on the existing ferry anyhow, unless they are very small trucks.

Mr. McKINNON: With regard to repairs charged up against locomotives and cars, are those repairs made in your own shops?

Mr. HUNGERFORD: Yes.

Mr. HANSON: I would like to have on the record where those public improvements are, amounting to \$200,000.

The ACTING CHAIRMAN: They are looking that information up for you.

If there are no further questions with regard to the items on page 14 we will pass to page 15: Transportation Expenses. Are there any questions to be asked with regard to the items on page 5?

Mr. KINLEY: With regard to the item of Train Fuel, \$13,913,030.81, how much of that coal did you buy in Nova Scotia?

Mr. ARMSTRONG: The figure for eastern Canadian coal purchases is 1,383,000 tons.

Mr. KINLEY: Where do you buy the rest of it?

Mr. ARMSTRONG: In western Canada.

Mr. KINLEY: How much?

Mr. ARMSTRONG: 991,000 tons, and in the United States, 1,885,000 tons.

Mr. KINLEY: Where do you get the rest of it?

Mr. ARMSTRONG: In the United States we get 1,885,000, practically 2,000,000 tons.

Mr. KINLEY: Oh, you are speaking of tons, not dollars?

Mr. ARMSTRONG: Yes.

Mr. KINLEY: And a million tons would cost about \$2,000,000?

Mr. ARMSTRONG: From eastern Canada \$5,861,000, and from western Canada \$2,944,000.

Mr. KINLEY: And the balance from the United States?

Mr. ARMSTRONG: Yes.

Mr. KINLEY: Have you still the coal mine operating in the United States?

Mr. ARMSTRONG: Yes.

Mr. HOWDEN: Do you take the Maritime coal to meet the western coal?

Mr. HUNGERFORD: We use eastern coal as far west as Toronto.

Mr. McKINNON: And how far east do you use western coal?

Mr. HUNGERFORD: Just this side of Winnipeg.

Mr. HANSON: And you use fuel oil in some western trains?

Mr. ARMSTRONG: In British Columbia.

Mr. HANSON: How many dollars did you pay for oil fuel?

Mr. ARMSTRONG: We will get that information for you.

Mr. KINLEY: Train fuel includes coal and oil?

Mr. ARMSTRONG: Yes.

Mr. HOWDEN: The boat-hauled coal which you use let us say between Toronto and Winnipeg is cheaper coal than either the western or eastern coal, is it?

Mr. HUNGERFORD: I do not follow you.

Mr. HOWDEN: We bring western coal a little way past Winnipeg and Maritime coal as far west as Toronto, and I suppose the coal used between those two points is taken from boats along the lake front loaded with United States coal?

Mr. HUNGERFORD: Yes.

Mr. HOWDEN: And the cost per ton to the railway is considerably less?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: Do you pay any duty on it or get it in free?

Mr. HUNGERFORD: We pay duty on it.

Mr. HOWDEN: Yes, and get it cheaper than our coal.

Mr. DEACHMAN: The C.P.R. use Maritime coal about as far west as Brockville?

Mr. HUNGERFORD: I do not know how far west the C.P.R. use eastern Canadian coal.

Mr. KINLEY: There is no C.P.R. except to Saint John?

Mr. DEACHMAN: Do they use Maritime coal all the way?

Mr. KINLEY: That is only a local road.

The ACTING CHAIRMAN: Are there any further questions to be asked with respect to the items appearing on page 15? If not, we will pass to page 16: Miscellaneous Operating Expenses.

Mr. HANSON: Have you got the answer to my question as to oil fuel?

Mr. McLAREN: The bituminous coal used in 1936 by the Canadian National Railway amounted to 4,418,717 tons, and the value was \$18,429,666.87. The fuel oil used amounted to 231,149 tons, and the value was \$1,180,711.36.

Mr. HANSON: It is only in British Columbia that fuel oil is used?

Mr. ARMSTRONG: Yes.

The ACTING CHAIRMAN: Are there any questions to be asked with respect to the items appearing under Miscellaneous Operating Expenses on page 16?

Mr. KINLEY: There cannot be many restaurants owned by the railroad? The operating expense of the restaurants amounts to only \$8,000 odd, so there cannot be many.

Mr. HUNGERFORD: They are leased.

Mr. KINLEY: The one in Halifax is credited to the hotel and not to the railway.

Mr. HUNGERFORD: In that case it is operated by the hotel and charged to hotel operation.

Mr. McKINNON: Are they all leased out to a company?

[Mr. J. B. MacLaren.]

Mr. HUNGERFORD: Yes, they are leased to the Canada Railway News.

Mr. McKINNON: With regard to the item of Stationery and Printing, I assume you have your own plant?

Mr. McLAREN: No.

Mr. HANSON: That work is all let by contract, is it not?

Mr. McLAREN: It is by agreement or contract over a period in some cases and on orders in other cases.

Mr. HANSON: Thank you.

Mr. HUNGERFORD: I am sorry my explanation in regard to restaurants was wrong. The reference is to the operation of the restaurant on the ss. *Charlottetown*.

Mr. HOWDEN: Are the restaurants operated by the railway company?

Mr. HUNGERFORD: No; the station restaurants are not, but the restaurant on the car ferry to Charlottetown is operated by the company.

Mr. KINLEY: There is a dining room on the car ferry?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: Do you lease out the privilege or run it yourself?

Mr. HUNGERFORD: They are practically all leased.

Mr. HOWDEN: Why the debit?

THE ACTING CHAIRMAN: That is the car ferry.

Mr. ARMSTRONG: This is the expense of the lunch counter on the car ferry.

Mr. RYAN: What does Law Expenses include?

Mr. ARMSTRONG: Expenses of the legal department.

Mr. RYAN: Fees for lawyers?

Mr. ARMSTRONG: Everything.

Mr. DEACHMAN: As to the item of Pensions, is it current practice to put it in General Expense?

Mr. ARMSTRONG: That has been the practice since 1923 and also before that time, I think.

Mr. DEACHMAN: Is that practice observed by other roads?

Mr. ARMSTRONG: I know the C.P.R. have it in now, but they did not a few years ago.

Mr. McKINNON: Would Law Expenses include your police force?

Mr. HUNGERFORD: No; it would include our own legal officers and clerks.

Mr. ARMSTRONG: There are one or two items in connection with the services of outside legal firms amounting altogether to—

Mr. RYAN: What is the total amount?

Mr. ARMSTRONG: Outside?

Mr. RYAN: Yes.

Mr. ARMSTRONG: I cannot tell you.

Mr. HUNGERFORD: From time to time we employ outside counsel for specific purposes.

Mr. RYAN: But what you pay outside your own office is not segregated?

Mr. ARMSTRONG: No; it could be done. It is not available readily.

Mr. HANSON: Carried.

Mr. DEACHMAN: With regard to the increase in the pension allowance of \$565,000 odd, is that a normal increase to be expected from year to year, or is there some special reason for that increase?

Mr. ARMSTRONG: Unquestionably it will rise at least at some rate for a few years until the effect of the new scheme is felt.

Mr. DEACHMAN: You are in arrears?

Mr. ARMSTRONG: No; but it may not hit its peak for a certain time; we have not come to that yet.

Mr. DEACHMAN: You have not come to the peak?

Mr. ARMSTRONG: No; the pension cost will rise for some little time yet, and then will be considerably reduced on account of the new scheme.

Mr. DEACHMAN: Is there a contributory fund now?

Mr. ARMSTRONG: Yes, now. This is the total cost of pensions to the C.N.R. system.

Mr. KINLEY: That is over and above what is paid in?

Mr. ARMSTRONG: What is paid in goes into a trust fund for the employees. It does not enter into this account, it is for future payments of annuities. This account shows the total amount the company paid out in pensions in 1936, and has nothing to do with contributions.

Mr. McKINNON: Contributions are kept separate?

Mr. ARMSTRONG: Yes. These are men actually on the pension payroll.

Mr. KINLEY: But under your new scheme when you go to pay in so much of your salary is that figured out on an actuarial basis to be self-sustaining in time?

Mr. ARMSTRONG: As closely as we can.

Mr. KINLEY: Is it on an actuarial basis so that it will maintain itself?

Mr. ARMSTRONG: We expect so.

Mr. BOTHWELL: The company will still have to make contributions from year to year?

Mr. ARMSTRONG: Yes, because the employees' contributions will not themselves pay for all pensions.

Mr. HUNGERFORD: This morning I said pensions were included up to the adoption of the new pension scheme on the basis of the old rule, and that obligation is continued; an employee is retired on pension on the basis of the old rule to December 31, 1934. From that time on the contributions of the employee and of the company are used to buy a supplemental annuity to be superimposed upon the pension he will receive directly from the company for the service rendered prior to December 31, 1934.

Mr. KINLEY: You will run them along together?

Mr. HUNGERFORD: Yes.

Mr. HOWDEN: To make clear, in future will the company make a contribution to the pension fund or will it be collected from the wage payments to the employees?

Mr. HUNGERFORD: Under the new scheme up to five per cent the company matches the contribution of the employee. The individual may select any rate of contribution he likes, one per cent, two per cent, three per cent, four per cent, or five per cent; and he can contribute up to ten per cent but the company will only match his contribution up to five per cent. If he elects to contribute three per cent the company will pay three per cent and if he selects five per cent the company will pay five per cent.

Mr. KINLEY: That is joint pension?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: The Civil Service pension is just what they pay in?

Mr. HANSON: I think the government contribute to that, too.

[Mr. J. B. MacLaren.]

The ACTING CHAIRMAN: If there are no further questions to be asked with respect to the items appearing on page 16 we will pass to page 17: Additions and Betterments Less Retirements. If there are no questions to be asked with respect to the items under that heading we will pass to page 18: Receipts and Expenditure — 14 years — 1923-1936. Are there any questions to be asked with regard to the items on page 18? If not, we will pass to page 19: Funded Debt — Principal and Interest.

Mr. HOWDEN: We had better not start asking questions about the items under that heading.

The ACTING CHAIRMAN: Then we will pass to page 20: Funded Debt — Principal and Interest (Continued). That is the same thing.

We pass on to page 21: Loans from Dominion of Canada.

Mr. HANSON: I will have to ask the Minister to get the interest lower.

Hon. Mr. HOWE: Do not worry too much about these, because we will not get them back.

The ACTING CHAIRMAN: We have been over these items pretty well already. If there are no further questions as to page 21 we will pass to page 22: Investments in Affiliated Companies. Are there any questions with respect to the items under that heading?

Mr. KINLEY: What have you to say about the item: Canadian Airways, (Limited), \$50,000?

Hon. Mr. HOWE: Several years ago the C.P.R. and C.N.R. each bought stock in Canadian Airways Limited to the amount of \$50,000.

Mr. KINLEY: Did you say \$50,000 each?

Hon. Mr. HOWE: Yes.

Mr. KINLEY: Is it a good investment?

Hon. Mr. HOWE: No.

Mr. KINLEY: Is it likely to become a good investment?

Mr. HUNGERFORD: They have not made any profit yet.

The ACTING CHAIRMAN: Is that the reason why other private companies found it difficult to get a contract from the government?

Hon. Mr. HOWE: No

Mr. KINLEY: What is the idea behind it? You bought stock in a competitor company?

Hon. Mr. HOWE: It was a matter of government policy at the time. It was impossible for this company to carry on the work it was then doing and the service was suspended. It is pretty hard to go back and trace out the history of the matter, but at the time the government thought it proper to ask the two railways to contribute \$50,000 each.

Mr. KINLEY: I suppose there are air mail feeders in the west?

Hon. Mr. HOWE: Yes, although at that time I think they were running an air mail service parallel to the railways.

Mr. BARBER: How long ago?

Hon. Mr. HOWE: 1927 or 1928.

Mr. BOTHWELL: What about the item Public Markets Limited? I do not remember seeing that item before.

Mr. HUNGERFORD: That was a little company organized in Winnipeg to buy some property required for terminal expansion.

Mr. KINLEY: What is meant by: Canadian National Railways (France)?

Hon. Mr. HOWE: The hotel Screed.

Mr. KINLEY: That is on page 23.

The ACTING CHAIRMAN: If there are no further questions with respect to the items appearing on page 22 we shall pass to page 23: Schedule of Companies Comprising The Canadian National Railway System.

Mr. KINLEY: These "Prince" items are ships: the *Prince Charles*, *Prince David*, *Prince George*, et cetera. Where are all these boats now?

Mr. McLAREN: That refers to the issued capital stock of the individual boat companies.

Hon. Mr. HOWE: I think all those boats are in service to-day. The *Prince Charles* and the *Prince George* are on the Pacific.

Mr. ARMSTRONG: Is the question where are those boats located now?

Mr. KINLEY: Yes, where is the *Prince David*? Is she down in Halifax?

Mr. ARMSTRONG: Yes, on the east coast.

Mr. KINLEY: Is she laid up?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: She didn't do very well?

Mr. HUNGERFORD: No. The *Prince Henry* is also there.

Mr. KINLEY: Both boats are laid up there?

Mr. HUNGERFORD: Yes.

Mr. BARBER: Do some of these boats operate on the terminal run at Victoria?

Mr. HUNGERFORD: No.

I would like to correct an answer I made in regard to Public Markets Limited. I was thinking of another company altogether. Public Markets Limited is the name of the organization that owns the abattoir and stockyard in Winnipeg.

Mr. BOTHWELL: There was such an increase in the amount that I wondered about your original explanation.

Mr. KINLEY: Did the tariff change increase your freights as between Boston and Halifax on imports from the West Indies? They were permitted to import through the United States certain things from the West Indies although before that they had to come to Halifax direct.

Hon. Mr. HOWE: That only affects oranges.

Mr. KINLEY: Only affects oranges?

Hon. Mr. HOWE: Yes.

Mr. KINLEY: And not bananas?

Hon. Mr. HOWE: No; bananas do not move that way.

Mr. KINLEY: They bring all the bananas to Halifax and Saint John, do they?

Hon. Mr. HOWE: Yes, the business is getting better every month, so it could not have hurt us much.

Mr. KINLEY: You do not contemplate supplementing those boats with some of these Prince boats on the West Indies run?

Hon. Mr. HOWE: They are not suitable.

Mr. HUNGERFORD: They would not carry very much freight.

Mr. KINLEY: What was in contemplation when they were constructed?

Mr. HUNGERFORD: They were built for passenger service on the Pacific coast.

Mr. KINLEY: It is suggested that the state-rooms are too big for an over-night run—

[Mr. J. B. MacLaren.]

Hon. Mr. HOWE: The more you ask about those particular boats the worse you will feel.

Mr. HANSON: They were built upon optimistic anticipations.

Mr. KINLEY: I do not know what is wrong with them.

Hon. Mr. HOWE: When they receive a load of fuel their carrying capacity is absolutely exhausted.

The ACTING CHAIRMAN: If there are no further questions to be asked with respect to the items appearing on page 23 and page 24 we will pass to page 25: Statement of Revenue Tonnage by Commodities for Years 1936-1935. That just sets out some facts.

Mr. DEACHMAN: With regard to the first classification of Agricultural Products, trucks would not constitute an important factor, would they?

Mr. HUNGERFORD: A very small factor.

Mr. DEACHMAN: What about the next classification, Animal Products, including horses, cattle and calves, sheep, hogs? They are being carried in trucks.

Mr. HUNGERFORD: Yes.

Mr. DEACHMAN: Are you not gaining somewhat on the trucks in that regard?

Mr. HUNGERFORD: It is impossible to say; I think we are gaining in places and perhaps not gaining in other places.

Mr. DEACHMAN: And with regard to the third classification of Mine Products, the truck would not be an important factor?

Mr. HUNGERFORD: No.

Mr. DEACHMAN: The truck becomes important in the case of the classification: Manufactures and Miscellaneous?

Mr. HUNGERFORD: Yes.

Mr. HOWDEN: And Perishable products.

The Acting CHAIRMAN: Are there any further questions to be asked with regard to the items appearing on page 26 under Forest Products and Manufactures and Miscellaneous? If not, we shall pass to page 27: Details of Railway Equipment. If there are no questions with regard to page 27 we shall pass to page 28: Statistics of Rail-Line Operation—Transportation Service. Are there any questions to be asked with regard to the items appearing on that page?

Mr. HUNGERFORD: That is the operating statement of locomotive miles and car miles.

The Acting CHAIRMAN: Yes. If there are no further questions with regard to pages 28 and 29 we shall pass to page 30: Employees and Their Compensation.

Mr. DEACHMAN: One moment, please. A point often in dispute is the freight rate as between the United States and Canada. Would it be correct to say that the freight rate in Canada is lower than it is in the United States, the ton mile rate?

Mr. HUNGERFORD: On the average there is not very much difference, but it is quite true that certain rates in Canada are lower than they are in the United States.

Mr. DEACHMAN: But taking your freight rate classifications into consideration, would there not be more bulk traffic in Canada in relation to the total traffic, more of the low classification?

Mr. HUNGERFORD: Relatively yes, I think.

Mr. DEACHMAN: So that if you were putting them on a comparable basis, in Canada you would get more for hauling freight than they do in the United

States. Mind you, I think you are entitled to it. It is amazing now to think they come in on an equal basis. They do not, when you take into consideration the bonus.

Mr. BOTHWELL: It is often stated that we have the lowest freight rates in Canada as compared with any other place in the world. Is there any justification for that statement, or what is the true situation? —

Hon. Mr. HOWE: We have the lowest freight rates for bulk export commodities.

Mr. DEACHMAN: I think that would take in only the average ton mile rate, but having regard to the classifications of both countries our rates are lower than those on the other side of the line?

Mr. HUNGERFORD: The ratio changes from time to time.

Mr. HANSON: Do you mean the rate is lower per ton per mile?

Mr. DEACHMAN: Yes, it would be lower per ton mile.

Mr. McLAREN: That is the average ton mile.

Mr. DEACHMAN: Yes. There was a small difference of .3 or so between the two countries last year.

Mr. McLAREN: Yes, but if you made an analysis of the commodities moving in both countries you would find the rates in Canada on bulk commodities are much lower than in the United States.

Mr. DEACHMAN: Would it be true that the large proportion of low classifications is an apparent cause of the low ton mile rate?

Mr. ARMSTRONG: That includes grain.

Mr. DEACHMAN: And lumber, coal and minerals.

Mr. BARBER: Last year a question came up—I do not know whether it was under this heading or not—as to our employing persons who had been let out during the depression. Has there been an effort made all along the line to take those men back as conditions improve?

Mr. HUNGERFORD: We do take them back.

Mr. BARBER: I have brought one instance to the attention of the authorities on several occasions, the signal man at the Masga signal tower. At one time there were three men employed there each working eight hours, but four years ago the number was reduced to one man. The two men who were let out were returned men who had about ten years service. The one man to whom I have referred is carrying on the work alone and is being paid considerable overtime. I think he operates from eight o'clock to four o'clock, and after four o'clock if he is called again he gets overtime, and also overtime on Sundays. I thought it was only fair that at least one of these two men who were let out should be given an opportunity to do a little work there. One man is getting a small pension. The man who is employed now returns to his house and they telephone him when the train is coming and he goes over and gets overtime for it. I took it up with the president of the company about a year or two ago.

Mr. HUNGERFORD: It is a question of cost.

Mr. BARBER: Perhaps one man would be satisfied with the amount paid in overtime.

Mr. HUNGERFORD: I know there has been a great deal of argument about that particular case, but the position taken by the local officials appears to be well founded. After all, we have to measure these things by what we can get along with, and if we can reduce the cost in any way I feel it is incumbent on us to do so.

[Mr. J. B. MacLaren.]

Mr. ELLIOTT: (Kindersley): Do you not think it would be setting a bad precedent to have men working on jobs for overtime only?

Mr. HUNGERFORD: You could not permit that.

Mr. BARBER: But the work could be divided.

Mr. HANSON: As to the distribution of the dollar and the item of Labour, how does that figure of .5494 for 1936 compare with the American roads?

Mr. ARMSTRONG: I think we can get that information for you.

Mr. HANSON: It would be interesting for the committee to know how that figure compares with other roads.

Mr. DEACHMAN: Which do you consider the most profitable, passenger or freight transportation?

Mr. McLAREN: Freight.

Mr. DEACHMAN: In the last few years there has been a decline in freight rates on the average in Canada, has there not?

Mr. McLAREN: Yes.

Mr. DEACHMAN: Is it not true that the decline in passenger rates is greater than the decline in freight rates?

Mr. HUNGERFORD: I do not think that can be answered offhand.

Mr. DEACHMAN: I looked at the average rate the other day and it shows there has been a greater decline in the per passenger mile rate than in the freight rate. I am not asking the question in order to embarrass my friends, but it struck me as rather peculiar that the transportation of freight being the most profitable, the greatest cuts should be made in the passenger business?

Mr. HUNGERFORD: There has been a tremendous shrinkage in passenger business due to the development of good roads, the automobile and the bus, and there is a school of thought which holds that by lower rates, more attractive equipment and things of that kind we can get a portion of that business back, and that is what we have been trying to do.

Mr. DEACHMAN: I think that is the real answer. I think it is a question of making the attempt to get the volume which will permit you to make a profit even at a lower rate.

Mr. HUNGERFORD: Of course we have the problem of a relatively thin population over large areas of this country, and there is not a great deal of passenger traffic to be obtained anyhow in many sections.

Mr. HOWDEN: There has never been any profit in the passenger business?

Mr. HUNGERFORD: Taken as a whole, no.

Mr. DEACHMAN: Either in Canada or the United States?

Mr. HUNGERFORD: There has been some on certain roads.

Mr. DEACHMAN: I think the Coolidge report said that the passenger traffic in the United States had never been profitable, taking the roads as a whole.

Mr. HUNGERFORD: If you look at it from the standpoint of charging a proportion of the cost of the provision of the roadway and its maintenance, which you would have to have anyway if you were going to carry on the freight business, then the passenger business is unprofitable; but if you disregard that the picture is altered materially. If you regard it as a by-product, there is something in it.

Mr. DEACHMAN: As a matter of fact you cannot determine the cost of carrying passengers on a railroad?

Mr. HUNGERFORD: No; you have to assume certain arbitraries in order to do so.

Mr. RYAN: With regard to the question of fuel and the operating expense, I wonder if we could ascertain the amount of fuel purchased from New Brunswick coal mines as compared with mines in the Atlantic division?

Mr. McLAREN: We will get that information for you in a little while.

Mr. ARMSTRONG: The answer to Mr. Hanson's question is: for all class one roads in the United States in 1935 it was 45 cents and for Canada 55 cents. You will remember of course that the operating ratio in the United States is lower.

The ACTING CHAIRMAN: Are there any other questions?

Mr. RYAN: How is the purchase of fuel carried out? Do you call for tenders or do you go into New Brunswick and buy coal and into Nova Scotia and buy coal? What is the system?

Mr. HUNGERFORD: It is a matter of negotiation with the individual firms.

Mr. RYAN: Could we have the statement to-morrow morning taking it up as closely as you can?

Hon. Mr. HOWE: With that you ought to get the proportion the railways buy of the total production.

Mr. RYAN: I would be glad to have that, too. I think the railways ought to co-operate with New Brunswick. I think the minister appreciates my difficulty.

Mr. KINLEY: Have you coal mines in New Brunswick? I never knew that.

Mr. RYAN: All you know about is fish. I am talking about New Brunswick coal.

The ACTING CHAIRMAN: We will pass to page 31: Operated Mileage, December 31, 1936. Are there any questions to ask? (Carried.)

That concludes this report with the exception of the question with regard to coal. Is it agreeable that we meet at eleven o'clock to-morrow morning? I think the management would like to get finished as quickly as possible.

Mr. BOTHWELL: We still have the Canadian Government Merchant Marine to deal with.

Hon. Mr. HOWE: Yes, and the estimates and finance bill will be taken up to-morrow.

The committee adjourned at 5.55 p.m. to meet again on Friday, March 19, at 11 o'clock a.m.

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SESSION 1937
HOUSE OF COMMONS



STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

FRIDAY, MARCH 19, 1937

TUESDAY, MARCH 23, 1937

WITNESSES:

Mr. V. I. Smart, Deputy Minister of Transport; Mr. S. J. Hungerford, President, C.N.R.; Mr. R. C. Vaughan, Vice President, Purchases and Stores Dept., C.N.R.; Mr. J. B. MacLaren, Comptroller, C.N.R.; Mr. W. M. Armstrong, Bureau of Economics, C.N.R.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1937

REPORTS TO THE HOUSE

THIRD REPORT

MONDAY, March 22, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the government begs leave to present the following as a

THIRD REPORT

Your committee has had under consideration the following items of the estimates referred to the committee on March 15, and approves of same, viz:—

Nos. 96, 97 and 293 of the main estimates for the fiscal year ending March 31, 1938, and Nos. 361 and 362 of the special supplementary estimates for the fiscal year ending March 31, 1938.

All of which is respectfully submitted.

A. M. YOUNG,
Acting Chairman.

FOURTH REPORT

TUESDAY, March 23, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the government begs leave to present the following as a

FOURTH REPORT

Your committee has considered Bill No. 73, "An Act to authorize the provision of moneys to meet certain expenditures made and indebtedness incurred by the Canadian National Railways during the calendar year 1937, and to authorize the guarantee by His Majesty of certain securities to be issued by the Canadian National Railways," and has agreed to report the Bill without amendment.

All of which is respectfully submitted.

A. M. YOUNG,
Acting Chairman.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277.

March 19, 1937.

The Select Standing Committee on Railways and Shipping met at 11 o'clock Mr. A. M. Young, acting chairman, presided.

The ACTING CHAIRMAN: We will take up this morning the report of the merchant marine; but before doing so there are a few questions that were asked yesterday to which the management will make reply this morning.

Mr. ARMSTRONG:

Question by Mr. Deachman: What is the lowest operating ratio in the United States?—*Answer:* The following are examples of United States steam railways with low operating ratios:—

Railway	Operating Ratio in 1936
Chesapeake & Ohio..	51·7
Bessemer & Lake Erie..	49·1
Duluth, Missabe & Northern..	44·0
Norfolk & Western..	52·9
Virginian..	44·6
Monongahela..	38·6

Each of these railways is a heavy tonnage road handling large quantities of coal or ore.

These low ratios are in large measure due to extremely high traffic densities.

The next is:—

Question by Mr. Walsh: Who pays salaries in connection with Canadian Car Demurrage Bureau?

Answer: The total expenses of the Bureau are divided between all railways in Canada who are members of the Bureau. The proportion contributed by each member railway is based on the ratio of the cars loaded and unloaded on its lines, to the total cars loaded and unloaded on all member lines.

Then we have:—

Question by Mr. Ryan: What is the amount of coal purchased from New Brunswick mines and Nova Scotia mines for the year 1936?

Answer: New Brunswick, 130,538 tons; Nova Scotia, 1,253,169 tons.

Mr. HEAPS: May I ask about prices?

Mr. VAUGHAN: We have not these—just tons.

Mr. RYAN: Why the disparity? Why is there so little New Brunswick coal purchased in comparison with Nova Scotia coal?

Mr. VAUGHAN: I think that question is very easily answered. In the first place the quality of New Brunswick coal, generally speaking, is not comparable to the better grades of Nova Scotia coal. In the next place the distribution of our coal is worked out entirely on an economical basis taking into consideration the cost of the coal and the cost of haul to the point of consumption. We feel we

are using all the New Brunswick coal we can economically. I think it will be found we are using much more New Brunswick coal than anybody else is. Another thing I should like to mention is nearly all, all except two, of the New Brunswick mines are located on the Canadian Pacific Railway.

Mr. HEAPS: May I ask if you have the prices that you pay for the New Brunswick coal?

Mr. VAUGHAN: The price of New Brunswick coal, screened coal, \$4 a ton.

Mr. HEAPS: What do you pay in Nova Scotia?

Mr. VAUGHAN: It works out about the same.

Mr. HEAPS: May I ask at the same time what the United States railways pay for their coal?

Mr. VAUGHAN: The United States railways would pay for their coal an average of less than \$2.

Mr. HEAPS: Are you bringing coal now from Vermont?

Mr. VAUGHAN: We are not bringing in coal from Vermont; we are bringing some coal from the United States for the central territory.

Mr. HEAPS: Virginia coal?

Mr. VAUGHAN: No; we bring in American coal—the American coal we use in Canada is very largely coal that comes from our own mines, the Rail and River Mines, which supplies the central territory from Toronto to Port Arthur, which cannot be served by Canadian coal.

Mr. HEAPS: What does that coal cost you?

Mr. VAUGHAN: The average price of that coal at the mine is around \$1.50.

Mr. HEAPS: \$1.50 compared with what you pay here.

Mr. VAUGHAN: \$1.50 compared with Nova Scotia coal at \$4 a ton at the mine. On top of that \$1.50 we have duty and freight.

Mr. HEAPS: What does it cost you laid down here?

Mr. VAUGHAN: I can tell you pretty much by figuring it out. \$1.50, we pay \$1.51 to Lake Erie, we pay 75 cents duty and we pay 27 cents boat, which works out at a little over \$4 alongside Fort William, duty paid.

Mr. HEAPS: Do you use that coal on the western line?

Mr. VAUGHAN: We use some American coal on the western lines for a limited distance west of Fort William; we bring Alberta coal down to Winnipeg and to one divisional point east of Winnipeg.

Mr. HOWDEN: What does it cost you? I suppose the Alberta coal costs a little more?

Mr. VAUGHAN: The Alberta coal comes from different seams. The average cost of Alberta coal would be a little over \$3 a ton.

Mr. HOWDEN: Then you have the extra cost of haulage?

Mr. VAUGHAN: Yes, we have the extra cost of haulage to Winnipeg, a thousand miles for that coal.

Mr. KINLEY: Do the Nova Scotia mines lay it down on your own lines?

Mr. VAUGHAN: Yes.

Mr. KINLEY: You get the commercial haul on their other business besides?

Mr. VAUGHAN: We do; we get a large commercial tonnage from the mines in Nova Scotia, whereas we would get very little from the mines in New Brunswick.

The ACTING CHAIRMAN: What is the difference in heat units between the Nova Scotia coal and the Alberta coal?

Mr. VAUGHAN: The heat units are about the same; but there are other differences in the coal. For instance, the American coal we use from our own

mines is of hard structure and handles very well. Therefore by the time it gets to the tender on the locomotive it is in very good condition. The Alberta coal, on the contrary, is almost slack when we get it; it is very fine when it comes out of the mine.

Mr. BEAUBIER: Where does the Alberta coal come from, the Crows Nest?

Mr. VAUGHAN: No, we do not get any coal from the Crows Nest. These mines are all on the C.P.R. line. We get some coal from the Brazeal line and from what we call the Coal Spur branch, just south of Edson.

Mr. HEAPS: Do the C.P.R. use New Brunswick coal?

Mr. VAUGHAN: I think the C.P.R. use about 25 per cent of the quantity we do.

Mr. RYAN: You think that coal is not giving you satisfaction?

Mr. VAUGHAN: Yes, it is giving us satisfaction. We are not having any particular trouble with it except it is of such a nature that it is not considered suitable for service on fast passenger trains.

Mr. RYAN: How is this coal delivered to you?

Mr. VAUGHAN: There is a big difference in the quality of the coal.

Mr. RYAN: I do not mean the nature of the coal. I am referring to transportation.

Mr. VAUGHAN: Well, much of the coal we get from the mines in New Brunswick is not produced on our own line, but is delivered to our line. They pay freight via Canadian Pacific to our line.

Mr. RYAN: That should be taken into consideration.

Mr. VAUGHAN: We cannot see any reason particularly why we should buy coal on a competitor's line when there is plenty available on our own line.

Mr. RYAN: The Canadian National Railways have to look at the province of New Brunswick from the standpoint of the people who are living there to help out.

Mr. VAUGHAN: We are admitting that, but we have increased very much, Mr. Ryan, and we have been increasing our purchases almost every year up to the present time. We are using that coal in as wide a territory as we can economically.

Mr. RYAN: Is the freight rate on the coal shipped from Nova Scotia to New Brunswick and Quebec considerably lower than the New Brunswick rate?

Mr. VAUGHAN: The coal we use in comparison with New Brunswick coal is coal that comes from the McCann district which is sold at the same price.

Mr. RYAN: I presume you have increased the amount used because of the more or less agitation on the part of the coal miners in the province of New Brunswick?

Mr. VAUGHAN: We have a good many representations from them to increase purchases. Remember, the province of New Brunswick imports three or four hundred thousand tons of coal, and we have been wondering why they do not use more of this coal in their own province.

Mr. RYAN: Because in 1934, if I have the figures correctly, Nova Scotia received subventions from the Dominion government to the amount of \$1,888,740; whereas Saint John received subventions of \$8,609. With protection like that Nova Scotia can ship this coal into the province of New Brunswick and undersell New Brunswick in the matter of competition.

Hon. Mr. HOWE: The subventions are exactly the same in both provinces, so much a mile on coal hauled.

Mr. RYAN: The minister has a better knowledge of this than I have. They were not on the same basis in 1934. New Brunswick got \$8,609 when it should have received something like \$84,000 if they were on the same basis.

Hon. Mr. HOWE: I think it has been adjusted since 1934. It was adjusted a year ago, so they are on exactly the same basis, proportion of freight rate to destination.

Mr. HEAPS: I should like to ask a question in regard to that. You can get coal at \$1.50 a ton at the mine mouth from your own mines in United States and you pay probably two and a half times that for the Nova Scotia coal. Have you taken that into consideration?

Mr. VAUGHAN: I think conditions have a lot to do with it. The seams in the mines in United States as a rule are easier to work, thicker seams, and the miner can produce more coal probably in a day than he can in these other districts. In Nova Scotia, of course, they have a lot of water to contend with.

Mr. HEAPS: Not in all the mines, in some.

Mr. VAUGHAN: In some.

Mr. HEAPS: They have some mines in which coal is produced easily and cheaply.

Mr. VAUGHAN: Yes, they have.

Mr. HEAPS: It is practically the same in these mines in the States?

Mr. VAUGHAN: Practically the same.

Mr. HEAPS: Then, that is not really the determining factor.

Mr. VAUGHAN: What we are endeavouring to do is to buy our coal based on quality, if we can. Many of the coal mines in Nova Scotia produce a poor grade of coal.

Mr. RYAN: The only point I want to bring to your attention is this, and I do it not in a spirit of criticism at all. You refer to the fact that the Canadian National Railways should not take advantage of the New Brunswick coal because the C.P.R. is there on a competitive line. I do not think you should take that basis at all, because after all, my position is this: the Canadian National Railway is a publicly owned railway.

Mr. VAUGHAN: Mr. Ryan —

Mr. RYAN: I just want to say this, any deficit that you incur is paid directly by the taxpayers of the Dominion of Canada. They make it up, and it represents some \$30,000,000 or \$40,000,000 and having that in mind, New Brunswick contributes also to the payment of the taxes. I do not think when you go to purchase coal you should consider yourself in the matter of competition with the Canadian Pacific Railway.

Mr. VAUGHAN: We are already buying the coal from five mines on the Canadian Pacific and only from two on our own lines, so I think we are trying to be fair.

Mr. RYAN: I do not know where that takes place. Where is that.

Mr. VAUGHAN: Two mines—

Mr. RYAN: You are speaking of outside of New Brunswick again.

Mr. VAUGHAN: No, I am talking about New Brunswick. We buy coal from five mines in the province of New Brunswick located exclusively on the C.P.R. and from two mines in the province of New Brunswick on our own lines.

Mr. RYAN: I understood you to say the coal is delivered by the miners, they pay the freight.

Mr. VAUGHAN: That is quite true. Unfortunately that coal is produced in mines that are served exclusively by the Canadian Pacific Railway.

Mr. RYAN: Of course, the geographic position does not apply.

Mr. VAUGHAN: Do you think it is fair to ask us to use so much coal from New Brunswick when some others should be doing their share.

Mr. RYAN: I do not think it is fair to ask you to do anything that is unreasonable. It is not altogether a question of economy. I think you ought to enlarge it a little bit and put your purchases on a little fairer basis so far as your purchases in the province of New Brunswick are concerned.

Mr. VAUGHAN: We are buying about 130,000 tons in the province of New Brunswick. A few years ago we did not buy more than 20,000 or 30,000 tons. We have been greatly increasing that tonnage. We think we have been treating the mines of New Brunswick remarkably well. We cannot use a larger tonnage in New Brunswick without costing us money.

Mr. HEAPS: Do you want them to buy coal in competition rather than New Brunswick?

Mr. RYAN: That is a matter of policy for the railways to decide. That is not a matter for me to decide.

Mr. HEAPS: We do not buy on a competitive basis now. I think in other years this matter has been threshed out thoroughly in this committee, and we at one time thought if coal was bought on a competitive basis in the open market that there would be an enormous saving to the railways.

Mr. KINLEY: By buying American coal.

Mr. HEAPS: On a competitive basis.

Mr. KINLEY: By buying American coal.

Mr. RYAN: I hope you accept my views in the spirit in which they are given.

Mr. VAUGHAN: Yes, I would appreciate your position.

Mr. RYAN: The matter is brought to my attention time and time again, and I have been urged to bring it to your attention.

Mr. VAUGHAN: Quite so.

The ACTING CHAIRMAN: Are there any other questions?

Mr. VIEN: You have spoken, Mr. Vaughan, about mines owned by the railway system? Where are they located?

Mr. VAUGHAN: They are located in the state of Ohio, just across the river from West Virginia.

Mr. VIEN: These are the only mines you own?

Mr. VAUGHAN: These are the only mines we own.

Mr. VIEN: Are they being operated as a separate corporate entity?

Mr. VAUGHAN: They are operated by the Rail and River Coal Company, the stock of which is entirely owned by us.

Mr. McLAREN: Mr. Hanson asked a question yesterday in reference to the increase in public improvements, maintenance of way account. This increase was brought about by the fact that on January 1, 1936, we changed our method of distribution. Prior to that date some of these expenses were distributed to other primary accounts; but effective January 1, 1936, all the public improvement maintenance expense was changed to this account. The only breakdown I am able to give you at the moment is that these expenses for 1936 are divided as follows: Atlantic region, \$23,000; Central region, \$84,000; Western region, \$45,000; United States lines, \$83,000. This amount involves possibly two to three thousand accounts. Another question was asked in regard to the method of placing insurance. The company maintains a list of insurance brokers who desire to bid for outside insurance. When insurance is required the brokers handling this particular kind of risk are invited to submit their offers, and we invariably accept the lowest tender.

Mr. HEAPS: Have you much outside insurance?

Mr. McLAREN: Not very much.

Mr. HEAPS: You carry practically all yourself?

Mr. McLAREN: There was an answer to that question yesterday, Hr. Heaps.

Mr. HEAPS: It seemed to me to be rather contradicted.

Mr. McLAREN: We pay about \$200,000 for outside insurance, if I remember rightly.

Mr. HEAPS: Is it necessary, in view of the very healthy state of the insurance fund to carry outside insurance?

Mr. McLAREN: Well, I would answer that by saying it is considered good policy to carry outside insurance on the property that we have insured with outside underwriters.

Mr. HEAPS: When you have \$11,000,000 in your own fund and you are paying practically no premium in the fund for insurance I cannot understand why you should pay \$200,000 to outside firms.

Mr. McLAREN: If I recollect rightly, the statement I gave you yesterday covered mostly vessels, and not rail property.

Mr. HUNGERFORD: It was felt that in connection with large risks it is wise to place it outside. Let me give you an example. Some years ago the *Prince David* went on a reef near Bermuda and the underwriters were required to pay upwards of \$1,000,000 for that single accident. We do not want to endanger our fund with these large concentrated risks.

Mr. HEAPS: You have not as many vessels now, Mr. Hungerford.

Mr. HUNGERFORD: You could not afford to lose very many without wrecking the fund.

Mr. KINLEY: Do you insure all your marine risks outside?

Mr. HUNGERFORD: Mostly, for the railway.

Mr. VAUGHAN: I think it is only the more hazardous risks that are insured outside.

Mr. HUNGERFORD: Practically all the railway company vessels are outside?

Mr. VAUGHAN: Take a boat on the Alaska route where there are narrow channels all the way and the trip is a very hazardous one.

Mr. KINLEY: You pay a bigger premium.

Mr. VAUGHAN: It is on a competitive basis, of course.

Mr. RYAN: Before we leave this question I would like to say in answer to Mr. Heaps, and I want to make myself clear in this respect, that I think so far as the policy of the railways is concerned in purchasing coal in the respective districts, they are to be commended for that policy, and it is well if they will be able to continue their policy to buy their coal from the coal mines in those districts so that they will encourage the industries there. I commend the railway for its policy in that respect.

The ACTING CHAIRMAN: Are there any other questions?

Mr. McLAREN: Yes. Mr. Walsh asked a question yesterday in regard to the decrease in amortization of discount. In answer I would say that in the 1935 accounts we charged to income \$258,000, covering a portion of premium and discount on bonds which were called and paid off. In 1936 we decided that such premium and discount was more correctly chargeable to profit and loss, and we changed our accounting accordingly. I was also asked by Mr. Walsh to submit a statement of profit and loss account restated to the basis of the proposed legislation.

The ACTING CHAIRMAN: We have this in statistical form.

Hon. Mr. STEWART: I think that was given some time ago in the committee when we were considering the recapitalization bill. I remember asking that a statement be given of the figures for the last year on the basis of the recapitalization. Is this something different?

Mr. McLAREN: No. This deals with the figures as disclosed in the 1936 accounts; the statement we prepared before was on the basis of the 1935 account.

Hon. Mr. STEWART: Yes, because the 1936 accounts were not ready; but this is the same kind of statement, merely being the figures for 1936 instead of 1935.

The ACTING CHAIRMAN: I was going to suggest that we put this statement in in tabulated form to complete the record. Would you like to have it read, Mr. Stewart?

Hon. Mr. STEWART: I think so, if it is not too long.

Mr. McLAREN: (Reads):

PROFIT AND LOSS STATEMENT

RE-STATED ON THE BASIS OF PROPOSED LEGISLATION—BILL 12

	Year 1936
	\$ cts.
CREDITS—	
Credits from Retired Road and Equipment.....	22,351 25
Donations.....	47,491 01
Miscellaneous Credits.....	291,047 91
Total Credits.....	360,890 17
DEBITS—	
Surplus appropriated for Investment in Physical Property.....	707 34
Miscellaneous appropriations of surplus.....	61,831 81
Debits for retired Road and Equipment.....	5,952,442 36
Miscellaneous Debits.....	7,114,390 53
Total Debits.....	13,045,708 42
Net Profit and Loss Items, Debit	12,684,818 25
Net Income Deficit brought forward.....	43,197,346 04
System Net Loss.....	55,882,164 29
Deduct: Contributions for deficits from Dominion Government—	
Canadian National Railways.....	\$ 37,449,321 57
Eastern Lines.....	5,550,632 36
P.E.I. Car Ferry and Terminals.....	303,439 89
	43,303,393 82
Change in Proprietor's Equity, representing Capital losses and other charges not contributed by the Dominion Government in cash.....	12,578,770 47

DOMINION GOVERNMENT—PROPRIETOR'S EQUITY

	Balance at January 1, 1936	Change during the year	Balance at December 31, 1936
	\$ cts.		\$ cts.
Can. Nat. Ry. Co. Capital Stock.....	18,000,000 00		18,000,000 00
C.N. Sec. Trust Capital Stock.....	282,616,208 35	Capital Losses.. \$ 5,957,676 52	270,037,437 88
Dominion Government Expenditures for C.G. Rys. Capital.....	388,290,294 40	Other Losses.. 6,621,093 95	
		30 88	388,290,263 52
Total, as per Balance Sheet.....	688,906,502 75	\$12,578,801 35	676,327,701 40

Hon. Mr. STEWART: Mr. Chairman, I am sorry I was not here yesterday. In the statement for 1936 the system's net loss on page 10 of this report is shown as \$92,000,000 odd; in the statement of the prior year, 1935, it is shown as \$115,000,000 odd. Now, the amount written off for debits for retired road equipment in the year that has just closed, 1936, is \$5,952,000 odd. The amount

written off as already referred to in the prior year was \$29,000,000 odd, and the reasons for that have been given. That very largely I think, Mr. Chairman, accounts for the difference in the statement between the \$92,000,000 in the profit and loss statement of last year and the \$115,000,000 odd in the statement of the previous year. So that if you make that difference the result of the year's operation is comparative on the same basis—about the same, is not that correct?

Mr. McLAREN: Obsolete equipment was \$25,000,000 in 1935. On the same comparative basis for last year the result would be \$90,000,000 as compared with \$92,000,000.

Hon. Mr. STEWART: Yes, but just that one item. On page 10 of the statement for 1936 the comparative item is \$5,000,000 as against \$29,000,000 odd. That makes a difference of \$24,000,000 odd.

Mr. McLAREN: About \$23,000,000.

Hon. Mr. STEWART: In that one item alone, as I see it, there is \$24,000,000 of a difference, and the explanation given as to why it was \$29,000,000 in the prior year was that a lot of equipment which, while having a service value, had become obsolete and was written off, the result being to show, apparently, a much worse result of the operations in the year 1935 than in the year 1936, showing as I have said, the total system's net loss of \$115,000,000 in that former year as against \$92,000,000 in the last year.

Mr. McLAREN: But you were speaking originally of the \$115,000,000 compared with the \$92,000,000, and the difference between the amount you referred to \$5,900,000 and \$29,100,000 is about \$23,000,000. Taking that off the \$115,000,000 would make about the same result.

Hon. Mr. STEWART: That is what I am saying; that the net result, carried through on the same basis, would make the two practically the same.

Mr. ARMSTRONG: That is hardly correct.

Hon. Mr. STEWART: I would be glad to have it cleared up, because that is the way it looks to me.

Mr. ARMSTRONG: As I understand your point, it is that last year we had a system net loss of \$115,000,000 and this year \$92,000,000; in other words, a betterment of \$23,000,000.

Hon. Mr. STEWART: Apparently; and that is something we would rejoice in.

Mr. ARMSTRONG: In equipment retirement we had a betterment of \$23,000,000, therefore, one cancels the other. In other words, if you take out of these figures the equipment retirements you have no better result this year than last year. Is that what you mean?

Hon. Mr. STEWART: It is practically the same.

Mr. ARMSTRONG: As I understand it, you say that the operating result is not better.

Hon. Mr. HOWE: The charge for net operating to offset that, Mr. Stewart, last year, was \$6,500,000; the charge to operating for equipment retirement the year before was, I think, \$5,700,000. The operating results are roughly \$900,000 better, and the saving in refinancing is better.

Hon. Mr. STEWART: That is a different point.

Hon. Mr. HOWE: They are both savings to the taxpayer.

Hon. Mr. STEWART: Probably so.

Mr. HEAPS: I asked a question yesterday in regard to costs of these refrigerator cars that were produced at Transcona and those that were bought from private contractors. I think you said you would get the figures for me.

Mr. ARMSTRONG: We could not get those figures in time; but if it is convenient to you we will endeavour to supply them for the record. We could not get them yesterday.

Mr. KINLEY: I submitted a question yesterday.

The ACTING CHAIRMAN: What was that?

Mr. KINLEY: It was in regard to the purchase of ties.

The ACTING CHAIRMAN: What was the question you asked yesterday?

Mr. KINLEY: My question was: what price was paid for ties in my riding, and from whom were they bought.

Mr. VAUGHAN: I would prefer to give the information to Mr. Kinley privately. It is not that there is anything confidential about it, but I doubt whether it is wise—pardon me for saying so—to give the full particulars of all our contracts. I would be very glad to give Mr. Kinley that information.

Mr. KINLEY: I quite agree that it is not wise to make public the details of the contracts, but, as a matter of fact, I wrote for them and I was refused them. I would rather have them privately. I can quite see why you would not like to give them before the contracts were let, but I do not see any reason why they should not be given after the contracts are awarded.

Mr. VAUGHAN: I have no recollection of the details being asked for.

Mr. KINLEY: I have a letter here which I will show you. I showed it to the committee yesterday.

Mr. VAUGHAN: I think we can dispose of this question all right.

The ACTING CHAIRMAN: That concludes that section of the report. Now, we have the report of the Merchant Marine. Mr. Armstrong, would you just read that general statement on pages 4 and 5 concerning the Canadian Government Merchant Marine.

Mr. ARMSTRONG: (Reads):—

MONTREAL, March 10, 1937.

THE HONOURABLE C. D. HOWE, M.P.,
Minister of Transport,
Ottawa.

Sir,

On behalf of the Directors I beg to submit the last annual report of the Canadian Government Merchant Marine, Limited, this covering the year ended December 31st, 1936.

The comparative operating results were as under:—

	1936	1935	Decrease
Grosse revenues	\$2,216,441 54	\$2,764,549 09	\$ 548,107 55
Operating expenses.....	1,912,936 41	2,452,726 83	539,790 42
Operating profit	\$ 303,505 13	\$ 311,822 26	\$ 8,317 13

There were only 17 completed voyages to Australia and/or New Zealand as against 24 in 1935, due to the sale of the fleet as referred to later in this report, and therefore the decreases shown above must be reviewed with this in mind. The operating ratio in 1936 was 86·30 compared with 88·72 in 1935.

Under authority of Order in Council approved April 27th, 1936 an agreement was executed for the sale of the remaining ten vessels of the fleet. The new Company which will continue the services formerly operated by the Canadian Government Merchant Marine is known as the Montreal Australia New Zealand Line, Limited. Nine vessels were turned over to the new Company as each of them arrived in Montreal after the date of the agreement, June 8th, 1936, and had discharged cargo. The tenth vessel, "Canadian Planter", was in collision with the "City of Auckland" on

May 3rd, 1936 and had to be withdrawn from the sale to the M.A.N.Z. Line and was later sold at sheriff's sale.

The Affairs of the Canadian Government Merchant Marine have now been liquidated, except for some small transactions which will be closed during the current year. In winding up the affairs of the Company adequate provision has been made for pensions to those entitled thereto under the Pension Rules and Regulations and for dismissal compensation to those not absorbed by the new Company or entitled to pension. The Directors wish to place on record their appreciation of the loyal service rendered by the officers and employees to the Company, the existence of which must now be considered as closed.

S. J. HUNGERFORD,
President.

Mr. KINLEY: I am interested in that statement: "In winding up the affairs of the company adequate provision has been made for pensions to those entitled thereto under the pension rules and regulations and for dismissal compensation to those not absorbed by the new company or entitled to pension."

I think I said yesterday that under the railway set-up certain men were retired and were unable to fulfil the pension conditions because of the depression which caused them to be laid off. It did occur to me that some provision should be made whereby a man who reached the retiring age and had not fulfilled his time because of bad years should be given special consideration to continue on until he has qualified for his pension. Now, those men were on call, but continuous time has been defined to mean operating duty and not standing-by duty. In connection with the Canadian Merchant Marine, I had occasion to look into this matter, because when the boats were sold certain captains were within a few months or a year or so of being eligible for pension, and had it not been for the fact that they were laid off between ships would have qualified. This indicates that some regulation has been adopted to look after them, and I wonder if we can be given any further information.

Mr. VAUGHAN: The arrangement was made when those boats were sold that anyone who qualified under the pension rules would be given a pension even though they had not reached the age of sixty-five, which is the retiring age. If they had entered the service before fifty years they would be given a retiring allowance under the pension rules based on service, and those who did not qualify under the pension scheme would be given what is called a dismissal allowance which, I think, was equivalent to two weeks salary for each year's service with a maximum of six months.

Mr. KINLEY: Suppose they had twelve years. That would be two weeks for each year. They could get up to 50 per cent then. You said there was a maximum of six months.

Mr. VAUGHAN: That was the maximum they could get—50 per cent of one year's salary.

Mr. KINLEY: 50 per cent of one year's salary for dismissal allowance?

Mr. VAUGHAN: Yes.

Mr. KINLEY: That means they would get six months pay.

Mr. VAUGHAN: Yes.

Mr. KINLEY: It is not very good treatment for a man who has been in the service for some years and is kicked out because his boat is sold.

Mr. VAUGHAN: Well, it was thought to be fairly generous at that time. Of course, none of these men have been in the service very long, because the Canadian Merchant Marine, after all, has not been running very many years.

Mr. RYAN: I think everything was done to maintain employment when these boats were sold.

Mr. VAUGHAN: We got the new company to take over as many men as they could, and they did take over a lot of men.

Mr. KINLEY: You must realize that when a shipmaster loses his ship he must go to the foot of the line on another ship; they are not going to put their men out to put him in; he is practically out of a job for good because promotion and service are always taken into consideration by every company.

Mr. VAUGHAN: I know he is placed in a difficult position.

Mr. KINLEY: He is placed in a very difficult position.

Hon. Mr. STEWART: The new company took over the same ships.

Mr. RYAN: The railway should be commended for trying to keep the men employed.

Mr. KINLEY: They did not keep them on.

Mr. RYAN: Yes they did—quite a few of them.

Mr. VAUGHAN: They took over a lot of them.

Mr. KINLEY: Just a few.

The ACTING CHAIRMAN: Shall we pass from the general statement to the balance sheet?

Mr. KINLEY: You sold a ship for a certain amount of money, and she appeared in your statement at a certain amount of money when you sold her; how did you look after the shrink?

Mr. McLAREN: The amount of money received from the sale of the ship was paid over to the government and they returned the notes we had given for the original cost of the ship, and that enabled us to write the original cost out of our investment account and out of our liability account.

Mr. KINLEY: It did not affect operating and depreciation.

Mr. McLAREN: No. Depreciation was cancelled and so was the interest.

Mr. HEAPS: Have you the interest charges here so we can see the actual picture?

Mr. ARMSTRONG: You will find that on page 9.

The ACTING CHAIRMAN: We will come to page 9 in due course. Is there anything further you desire to ask in connection with the balance sheet itself?

Mr. HEAPS: I am trying to get a real picture of the situation as regards the year's operation. I notice on page 9 that interest due is \$558,068.76, and that would, of course, have to be offset against the operating cost?

Mr. McLAREN: It was transferred to profit and loss. On page 7 you will find in the liabilities the item Interest Accrued Unpaid \$8,426,637.44.

Mr. KINLEY: I see in the liabilities the item "Three Directors' Shares \$100." I notice you have three directors who are interlocked. Do they get pay from each company?

Mr. McLAREN: No.

Mr. KINLEY: They receive no pay from the Canadian Government Merchant Marine; they get it all from the parent company.

Mr. McLAREN: Yes.

Mr. KINLEY: That is true of all three, is it?

Mr. McLAREN: No directors' fees are paid.

Mr. KINLEY: Either by this company or by the West Indies Company?

Mr. McLAREN: No.

The ACTING CHAIRMAN: Are there any further questions with regard to pages 6 and 7? If not we will pass then to the profit and loss account and income account on pages 8 and 9. Are there any questions in that regard?

Mr. KINLEY: With regard to his boat, *Canadian Planter*, that was lost, I notice that in the first part you say, "The tenth vessel, *Canadian Planter*, was in collision with the *City of Auckland* on May 3, 1936 and had to be withdrawn from the sale to the M.A.N.Z. Line as was later sold at sheriff's sale." Did you fix the liability for that and settle who was liable for the collision? Have you fixed the responsibility?

Mr. HUNGERFORD: That whole matter was settled by agreement. There were suits and cross-suits, and there was considerable complication in connection with it. However, it was finally settled by joint agreement.

Mr. KINLEY: Was the crew of the *Canadian Planter* exonerated?

Hon. Mr. STEWART: There was no trial.

Mr. KINLEY: It is very important to know whether the crew was exonerated.

Mr. HUNGERFORD: The investigating board placed a certain measure of blame upon both ships, and the matter became exceedingly complicated because the vessel was towed into American waters and dealt with in American ports. Taken altogether it resulted in a very bad legal tangle.

Mr. KINLEY: Did both ships have a pilot on board?

Mr. HUNGERFORD: I understand so.

Mr. KINLEY: And was not the pilot held responsible for the accident in each case?

Mr. HUNGERFORD: Well, apparently not.

Hon. Mr. HOWE: The captain is always responsible even though a pilot is on board.

Mr. KINLEY: That is what I want to know. In this case it is not fair to the crew of the Canadian ship if the responsibility is not fixed. A captain can make only two mistakes—in fact, he can make only one; and if he comes out of the incident with a cloud over him how is he going to get a job?

Mr. HUNGERFORD: Both ships were held responsible. The suits were instituted on behalf of the shippers of the cargo, and there were cross-suits.

Mr. KINLEY: Both ships, I suppose, were insured, and you were not thinking about the matter.

Mr. VAUGHAN: Yes, they were both insured.

Mr. KINLEY: Did the insurance company file suit against the other ship?

Mr. VAUGHAN: There were threatened suits and the matter was settled really between the lawyers of the various companies.

Mr. KINLEY: Between the lawyers of the insurance companies?

Mr. VAUGHAN: Yes. In our case our boat was insured in our own fund.

Mr. KINLEY: You did not make any loss, did you?

Mr. VAUGHAN: We made some loss, but were insured.

Mr. KINLEY: For how much was the ship insured, may I ask?

Mr. VAUGHAN: I do not remember. Anyway, most of the loss in that connection would be charged up against the Canadian Government Merchant Marine insurance fund.

Mr. KINLEY: She would be insured for a lot more than you sold some of them for. She was well sold, eh?

Mr. BOTHWELL: I direct your attention to page 8. I was wondering if that item \$41,000,000 odd represents the cost to the Canadian government of operating the Canadian Government Merchant Marine?

Mr. McLAREN: No, it does not. The original cost of the boats was \$79,661,-921. There was recovered by sales and insurance \$5,412,986, leaving a loss in capital account of \$74,248,935. Loss in operating account was \$8,099,086.20; making a total loss of \$82,348,021.

Mr. BOTHWELL: That is the total net cost to the government over the period of years of operating this service.

Mr. McLAREN: Well, that is exclusive of interest charges for the period.

Mr. BEAUBIEN: And the deficits on the operations.

Mr. McLAREN: The deficit on operation is \$8,000,000.

Mr. BOTHWELL: It was a good business to get out of.

Mr. KINLEY: I do not know about that. We kept them while they lost money, and when they began to pay we got clear of them. I presume if you put them in your statement and valued them at the price you sold them at they would not be a very profitable business.

Hon. Mr. HOWE: The trouble was they were getting to the point where we had to replace them.

Mr. KINLEY: That is a matter of opinion. Other people buy them and run them.

Hon. Mr. HOWE: No, they are practically all scrapped to-day.

Mr. KINLEY: Some of them are.

Mr. BOTHWELL: There are no other credits to that statement, are there?

Mr. McLAREN: No.

Mr. VIEN: Is there a statement published somewhere showing the exact picture of what the Canadian National shipping has cost us?

Mr. SMART: In the report of the Department of Railways and Canals.

Mr. VIEN: In the report of the Department of Railways and Canals?

Mr. SMART: Yes.

Mr. VIEN: Would it give accrued interest and everything?

Mr. SMART: It gives you the whole cost.

Mr. VIEN: Everything included. What statement were you reading from, Mr. McLaren?

Mr. McLAREN: The statement we had prepared from our accounts.

Mr. VIEN: Is it available for distribution?

Mr. McLAREN: Yes.

Mr. VAUGHAN: I think we will find it.

Mr. McLAREN: I have read it.

Mr. VIEN: That is all right.

The ACTING CHAIRMAN: If these are all the questions in regard to that we will pass on to the next statement, West Indies service.

Mr. ARMSTRONG: (Reads)

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS,
LIMITED

ANNUAL REPORT

MONTREAL, QUE., March 10th, 1937.

The Honourable C. D. HOWE, M.P.,
Minister of Transport,
Ottawa, Ont.

SIR,—On behalf of the Directors, I beg to submit herewith the Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1936. It is a pleasure to report that for the first time since the formation of the Company the services have earned a surplus after meeting the interest on the bonds in the hands of the public. The comparative operating results are as follows:—

	1936	1935	Increase	Percent
Gross revenues.. . . .	\$4,322,592 65	\$3,816,245 75	\$506,346 90	13·27
Operating expenses.. . . .	3,765,194 10	3,616,214 92	148,979 18	4·12
Operating profit.. . . .	\$557,398 55	\$200,030 83	\$357,367 72	

After payment of bond interest there is an income surplus of \$87,398.55 to be paid over to the Government, compared with an income deficit of \$269,969.17 which had to be provided by the Government in 1935.

Operating revenues increased \$506,346. The number of completed voyages was 128, two less than in the preceding year. Freight revenue increased \$349,606 reflecting better cargoes both import and export. The number of stems of bananas carried in 1934 by the vessels in the Eastern Service was 65,422. This was increased to 235,885 in 1935 and to 385,140 in 1936. The vessels in the Western Service (Jamaica) carried 1,857,091 stems in 1936, an increase of 71,804 over 1935.

Due to exceptional demands for cargo space for Australia and New Zealand the "Cornwallis" made a special voyage sailing from Montreal in November 1935, from which a net revenue of \$21,894 was secured.

Passenger travel was exceptionally good, all vessels being fully booked the greater part of the year. Passenger revenues increased \$131,900.

Operating expenses increased \$148,979 or 4·12 per cent as compared with an increase of 13·27 per cent in revenue. The increased expense was occasioned principally by the handling expense of the additional tonnage.

The vessels of the fleet were operated during the year without serious casualty and have been maintained to a very high standard. The self insurance fund now stands at \$1,375,317, an increase of \$150,380 during 1936.

The Directors take this opportunity of expressing their appreciation of the loyal and efficient service rendered by the Company's officers and employees, both ashore and afloat.

S. J. HUNGERFORD,
President.

Mr. KINLEY: Mr. Chairman, I understand that this year the bookings on these boats were very large, and accommodation was hard to obtain. Was that so?

Mr. VAUGHAN: That is quite so. In certain months of the year we have had great difficulty in providing sufficient accommodation to meet the demand.

Mr. KINLEY: I know a lot of people in the West Indies and Bermuda find it almost impossible to get back on these boats, and even Jamaica. People

must take advantage of these cruise liners, which is a very nice way to go back. It is a question of whether it would be possible for the sake of continuity of business to increase the service at certain months of the year.

Hon. Mr. HOWE: I might say the service really needs two more boats; but there again we come up against the lack of funds. We do not feel that the position is such that we can ask for the money this year.

Mr. KINLEY: And the boats should be about two or three knots faster. The boats are beautiful boats and very comfortable, but they are too slow.

Hon. Mr. HOWE: They are ideal boats for that service, I believe.

Mr. BOTHWELL: How many boats are there?

Mr. VAUGHAN: Just five Lady boats, eleven in the service altogether. There are five Lady boats and two are what are known as "vagabond cruisers." I may say that we have asked for authority to provide more accommodation on the Lady boats.

Mr. KINLEY: You have provided for that.

Mr. VAUGHAN: We have provided for 32 additional passengers. We propose to turn sixteen second-class rooms into first-class room.

Mr. KINLEY: There is a lot of room in some of these boats that seems to be wasted. They have very big staterooms. The western run is the best run is it not?

Mr. VAUGHAN: The eastern run is the most profitable.

Mr. KINLEY: The one to Trinidad?

Mr. VAUGHAN: Yes.

Mr. KINLEY: I thought the one to Jamaica carried the most passengers but the other one carried the most freight—the Nassau and Jamaica carries the most passengers.

Mr. VAUGHAN: The net result is here. The net result of the eastern service was \$267,000; the western service, \$63,000.

Mr. KINLEY: That is due to the freight. The passenger service is heavy on the other run, I believe.

The ACTING CHAIRMAN: Are there any further questions on the steamships?

Mr. KINLEY: There is this about it. I notice the directorate is an interlocking one between the three companies. I can quite see we could have one interlocking directorate, which would be a good idea as between the railroads and the boats, which are two persons in law. But when one man directs the two operations there might be a question of freight rates and the division of proportioning the freight to the boat and to the railways. It might be wise to have one directorate for each of these companies with an independent mind, not the mind of the railroad. I do not think the primary mind of the railroad should dominate the whole situation. In these directorates you have all the men who are directors of the railroad, have we not, interlocking?

Mr. HUNGERFORD: Correct.

Mr. KINLEY: I just put that out as a suggestion.

The ACTING CHAIRMAN: If there are no further questions to ask about that section, we shall pass on to the next page, profit and loss account. This seems to be the first cash surplus we have ever had paid to the government in this regard. It is very satisfactory to note this great improvement. Are there any questions?

Mr. RYAN: What page?

The ACTING CHAIRMAN: Page 16.

Mr. VIEN: Carried.

The ACTING CHAIRMAN: No comment on that. We now come to income account on page 17.

Mr. RYAN: In connection with this income account I should like to ask where the purchases are made for these steamships.

Mr. VAUGHAN: It depends where the supplies are required. The supplies needed are mostly in the way of foodstuffs and they are bought mostly in Canada. The oil is bought from the West Indies where it can be purchased to advantage. These boats are all oil burners. The boats on the eastern trip take oil at Trinidad and on the western trip at Jamaica.

Mr. RYAN: When you spoke about foodstuffs you said they were purchased in Canada. Where in Canada?

Mr. VAUGHAN: Very largely in Halifax or Saint John.

Mr. RYAN: Is there anything at all purchased in Saint John?

Mr. VAUGHAN: Not as much as at Halifax.

Mr. RYAN: Is there anything at all purchased there?

Mr. VAUGHAN: A little, not very much.

Mr. KINLEY: There is not much bought in Halifax.

Mr. VAUGHAN: Yes, there is, quite a lot. Halifax is really the terminus of the boats and they have not got sufficient time in Saint John for one thing to provide them with very much.

Mr. RYAN: They stay there a day.

Mr. VAUGHAN: Yes.

Mr. RYAN: Do you not think you should divide the purchases up a little bit?

Mr. VAUGHAN: We have gone into that carefully, and in fact we did not long ago, to see if we could not buy more in the city of Saint John. We are looking into it now. I do not know just how it is going to pan out. It is done from the standpoint of what is the most economical thing for the boats.

Mr. RYAN: I should like to call your attention to this fact. My understanding of the situation is that so far as Saint John is concerned no purchases are made there at all.

Mr. VAUGHAN: I am quite willing to admit at the present time very little is bought there for these boats.

Mr. RYAN: In addition to that I am told by the merchants there that the laundrymen are not even allowed on the boat to take a shirt or collar from any of the employees. If they go down to take their laundry off and it can be done in a day, they are not allowed to go on the boat at all. I do not think that is a fair proposition. Have you heard any protests in that regard?

Mr. VAUGHAN: We have not heard anything about it. However, that question of buying at Saint John is receiving our attention, anyhow.

Mr. RYAN: I appreciate that very much. I hope that some benefit will accrue to Saint John from it. I should like to take up another matter, and that is in regard to the laundry being done at Saint John. I am told that if a laundryman goes down to the boat he is not allowed to go on the boat to get the laundry. I wish you would take that up as well.

Mr. VAUGHAN: We will take note of that.

Mr. BOTHWELL: I have one question I should like to ask in regard to the profit and loss account. The profit and loss account shows a deficit as at 31st December, 1935, of \$8,687,238.67, and the annual report states that you made a profit and paid interest on the bonds to the public, and yet the statement shows a deficit of \$9,000,000 apparently at the end of December, 1936. You might explain that. I do not understand it just at the moment.

Mr. McLAREN: The \$8,000,000 you speak of is the deficit at December, 1935, from which is deducted the cash deficit which was paid as a contribution, reducing the amount to \$8,417,269.50. Then we bring forward the book deficit from the year's operations of \$574,212.58, and deduct the cash surplus that is to be paid back to the government—

Mr. BOTHWELL: Where did you get that loss of \$574,212.58?

Mr. McLAREN: On page 17, Mr. Bothwell. The operating profit is \$87,000, and you have to deduct the interest due the government, depreciation on vessels, which makes a net deficit of \$574,212.58 for the year.

Mr. BOTHWELL: I get it now. You are taking into account depreciation on vessels and interest due to the government.

Mr. McLAREN: Yes.

Mr. BOTHWELL: So that your operating profit through the year was evened up by that much as well.

Mr. McLAREN: Yes.

Mr. VAUGHAN: I should like to point out that before this service was undertaken by this company the government paid a private company \$340,000 per annum as a subsidy to carry on this service.

Mr. BOTHWELL: For mail service, something of that kind.

Mr. VAUGHAN: Just for the general service, mail and otherwise to the eastern islands.

Mr. KINLEY: How much subsidy do you get from the West Indies now?

Mr. VAUGHAN: It is in this book, I think.

Mr. ARMSTRONG: \$223,000.

Mr. KINLEY: \$223,000?

Mr. VAUGHAN: That is from the various islands.

Mr. KINLEY: What about the selection of the crews? What is your policy with regard to selecting crews for these boats?

Mr. VAUGHAN: Of course, we give preference to Canadians first. In all cases a very large proportion are Canadians. When we come down to the actual crews, stewards, and so on, we try to make a fair division as between Canadians and West Indians.

Mr. KINLEY: You have an agreement with the eastern lines in regard to that?

Mr. VAUGHAN: A tentative agreement, yes.

Mr. KINLEY: You always prefer Canadians; that is the first consideration.

Mr. VAUGHAN: Yes, it is.

Mr. KINLEY: Does he have any privilege over the British sailor?

Mr. VAUGHAN: Well, he would only have a privilege in this way: if we had two men apply for a position, one a Canadian and one an old countryman, we would give preference to the Canadian if he were competent.

Mr. KINLEY: Have you not seen an advertisement very lately in which the first provision was an extra master's certificate. That is a British certificate, and it puts the Canadian out.

Mr. VAUGHAN: We have plenty of Canadians who are masters on our boats and who have Britishers working under them who have certificates that are far superior to the Canadian certificates.

Mr. KINLEY: The advertisement I have in mind was one that asked for an extra master's certificate, which is issued in England, and which puts the Canadian out at the beginning.

Mr. VAUGHAN: I do not think we advertised.

Mr. KINLEY: I saw it the other day from the Marine Department.

Mr. VAUGHAN: It was not from the Canadian National Steamships. May I make a correction in regard to an answer I gave you a while ago in regard to which service was the more profitable, the eastern or the western service. In gross earnings we show more on the eastern service, but in net earnings we show a little more on the western service. Net earnings on the eastern service were \$334,000; on the western service, \$349,000, although the gross earnings on the eastern service were \$1,700,000 and on the western service, \$1,100,000.

Mr. KINLEY: On the western service you carry passengers, and on the eastern service you handle freight.

Mr. VAUGHAN: We get a profitable banana business from the western service.

Mr. RYAN: There is another matter to which I should like to direct a question and that is in regard to the sheds on the eastern side of the harbour of Saint John. Has there been any agitation to have them renovated?

Mr. VAUGHAN: The question has not come up to us, Mr. Ryan, but I understand the United Fruit Company has had the matter up.

Mr. RYAN: I want to take it up with the minister and I should like to have your moral support.

Hon. Mr. HOWE: It seems to me I heard something about it.

Hon. Mr. STEWART: That is not the kind of support you want. I would like to ask a question, and the minister can probably answer it. I should know it myself. When does the trade agreement between Canada and the West Indies expire?

Hon. Mr. HOWE: Next year, I believe.

Hon. Mr. STEWART: Next year. I believe it is under that agreement that these services were established or in connection with it?

Hon. Mr. HOWE: Yes. The services were established to implement the agreement.

Hon. Mr. STEWART: The agreement expires next year?

Hon. Mr. HOWE: Yes, unless renewed.

Hon. Mr. STEWART: I hope we will be able to renew it.

Mr. KINLEY: I am not so sure of that.

Hon. Mr. STEWART: It looks pretty good.

Mr. KINLEY: I would not like to see it renewed if it was at the exclusion of everybody else. I would sooner see some trade with Cuba.

The ACTING CHAIRMAN: We shall pass now to pages 18 and 19, which contain some statistical information. Are there any questions in regard to that, if not we shall pass over to this last page, which merely gives information in regard to the fleet. Are there any questions in regard to that? That completes the report, then. What shall we deal with next.

Hon. Mr. HOWE: We will take up bill 73, Mr. Chairman, if there is no objection.

The ACTING CHAIRMAN: We have copies of the budget prepared and we shall distribute them. We shall pass now to the budget. I think it would meet with the approval of the committee if we read the first page.

Hon. Mr. STEWART: Yes, I think that is the best way to make progress.

Mr. ARMSTRONG: (reads)

CANADIAN NATIONAL RAILWAYS

CANADIAN NATIONAL RAILWAYS AND CANADIAN NATIONAL STEAMSHIPS BUDGET FOR YEAR 1937

SUMMARY

Canadian National Railways—All-Inclusive System	Reference Page	Amount	Total
Net Income Deficit			
Canadian National Railways, excluding Eastern Lines. . . .	2	\$29,706,000	
Eastern Lines, excluding P.E.I. Car Ferry and Terminals	2	5,027,000	
Prince Edward Island Car Ferry and Terminals.	2	267,000	\$35,000,000
Capital Expenditures			
Additions and Betterments, less Retirements.	3	3,900,000	
Acquisition of Securities.	3	561,000	
New Equipment Purchases.	4	19,396,700	
		23,857,700	
Less Available from Working Capital.		250,000	
		23,607,700	
Retirement of Capital Obligations, including Sinking Fund and Equipment Principal Payments.	5	7,114,000	\$30,721,700
Total Budget.			\$65,721,700
NOTE:—Net income Deficit of \$35,000,000 includes \$1,398,900 for contribution to deficit of I.C.R. and P.E.I. Provident Fund, and \$100,000 for contribution to Grand Trunk Railway of Canada Superannuation and Provident Fund Association.			
In event of equipment trust being issued for the purchase of new equipment, it will only be necessary to provide approximately 25 per cent of the total amount of \$19,396,700 through the financing Act of 1937.			
Statutory Authorizations			
Senneterre-Rouyn Branch Line, authorized under Chapter 26. Year 1936.	4		\$ 3,900,000

The ACTING CHAIRMAN: I think we shall stop at that point and discuss it. Are there any questions in connection with it?

Mr. BOTHWELL: What was our budget last year?

Hon. Mr. HOWE: Last year we budgetted for \$39,900,000.

Mr. ARMSTRONG: \$49,859,000 was the total.

Hon. Mr. HOWE: The equipment purchase account accounted for the increase.

Hon. Mr. STEWART: Mr. Minister, is this the amount it is proposed to ask parliament for?

Hon. Mr. HOWE: Yes, for capital and for deficit.

Hon. Mr. STEWART: \$65,721,700, plus \$3,900,000?

Mr. SMART: No, that is a statutory amount.

Hon. Mr. HOWE: The \$3,900,000 was voted under the Senneterre Act.

Hon. Mr. STEWART: That is already voted.

Mr. HANSON: That is new construction.

Mr. BOTHWELL: How much new equipment purchase was made last year?

Mr. HUNGERFORD: None made last year. We made a lot the year before, and most of the deliveries were made during the year 1936.

Mr. BOTHWELL: I was wondering how much was included in the budget.

Hon. Mr. HOWE: Nothing at all.

Mr. HUNGERFORD: Nothing in the budget.

The ACTING CHAIRMAN: Perhaps if we continue with the Canadian National Steamships we will have everything in front of us.

Mr. BOTHWELL: It means this, that there is a decrease in your budget this year outside of new purchases of \$4,000,000.

Mr. HUNGERFORD: A decrease of about \$8,000,000 in the cash deficit.

Mr. KINLEY: Over last year?

Mr. HUNGERFORD: Yes. In 1936 it was \$43,300,000 and in 1937 we are budgetting for \$35,000,000.

Hon. Mr. STEWART: That is an estimate.

The ACTING CHAIRMAN: Just read to the end of the last section on the first page.

Mr. ARMSTRONG:

Canadian National Steamships

Canadian National (West Indies) Steamships Limited:

Net Income—Payable in Cash to the Government.. . . .	6	\$25,000
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Capital Expenditures

Additions and Betterments.. . . .	6	98,500
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Of the Steamships Requirement of \$98,500 for Capital Expenditures, \$48,500 is covered by Parliamentary Vote 293 of the Main Estimates for 1937, and \$50,000 is covered by Supplementary Vote.

Montreal, March 8, 1937.

Mr. KINLEY: Why are additions and betterments in here under capital expenditure?

The ACTING CHAIRMAN: When we go to the next page we shall have the details in front of us.

Hon. Mr. HOWE: On page 6.

The ACTING CHAIRMAN: Read the next page, please. Do you wish to have it read?

Hon. Mr. HOWE: It is not necessary to have this printed in the evidence.

Hon. Mr. STEWART: This is the first time I have seen it. It is not long. I should think it might as well be put in and then we have the whole story.

The ACTING CHAIRMAN: We will have it in front of us if we have it printed.

Mr. ARMSTRONG:

CANADIAN NATIONAL RAILWAYS

BUDGET FOR YEAR 1937

	Prince Edward Island Car Ferry and Terminals	Eastern Lines (excluding P. E. I. Car Ferry and Terminals)	System, excluding P. E. I. Ferry and Eastern Lines	System All-Inclusive Total	Total Require- ments
	\$	\$	\$	\$	\$
NET INCOME DEFICIT—					
Operating Revenues, excluding 20% Contribution, M.F.R. Act.....	116,000	20,084,000			
Contribution from Government under Maritime Freight Rates Act (20%).....	4,000	1,796,000			
Total Operating Revenues.....	120,000	21,880,000	183,000,000	205,000,000	
*Operating Expenses.....	380,000	24,170,000	158,000,000	182,550,000	
Net Revenue from Railway Operations.....					
Taxes.....	Def. 260,000	Def. 2,290,000	25,000,000	22,450,000	
Other Income Debits or Credits.....		315,000	5,997,000	6,312,000	
Net Income before Fixed Charges.....		851,000	Cr. 2,063,000	Cr. 12,000	
Fixed Charges—	Def. 260,000	Def. 3,456,000	21,066,000	16,150,000	
Interest due Public on Long Term Debt.....		333,000	48,842,000	49,175,000	
Other Fixed Charges.....	7,000	1,195,000	2,473,000	2,475,000	
Income Requirements.....					
Profit and Loss Items—Net Debit.....	267,000	4,984,000	30,249,000	35,500,000	
Estimated Net Change in Profit and Loss during Year—Deficit.....	267,000	743,000	2,657,000	3,400,000	
DEDUCT—Amounts included above not required in Cash—		5,727,000	32,906,000	38,900,000	
Depreciation Reserve.....			630,000	630,000	
Amortization of Discount on Funded Debt.....			1,370,000	1,370,000	
Loss on Retired Road and Property, etc.....		700,000	1,200,000	1,900,000	
Total Cash Requirement on Deficit Account.....	267,000	5,027,000	29,706,000	35,000,000	35,000,000

CAPITAL EXPENDITURES—		
<i>Additions and Betterments</i> (Details on Page 3)—		
General Additions and Betterments (less Retirements).....		\$ 3,900,000
<i>Acquisition of Securities</i> (Details on Page 3)—		
Northern Alberta Railways Company.....	\$ 350,000	
Toronto Terminal Railway Company.....	100,000	
Chicago and Western Indiana Railroad Company.....	111,000	
Total Acquisition of Securities.....		561,000
** <i>New Equipment Purchases</i> (Details on Page 4).....		19,396,700
Less—Available from Working Capital.....		23,857,700
RETIREMENT OF CAPITAL OBLIGATIONS, INCLUDING SINKING FUND AND EQUIPMENT PRINCIPAL PAYMENTS (Details on Page 5).....		250,000
Total.....		23,607,700
		7,114,000
		65,721,700

* Operating Expenses include \$1,398,900 for contribution to deficit of I.C.R. & P.E.I. Provident Fund, and \$100,000 for contribution to Grand Trunk Railway of Canada Superannuation and Provident Fund Association.

** In event of Equipment Trust being issued for the purchase of new equipment, it will only be necessary to provide approximately 25% of the total amount of \$19,396,700 through the Financing Act of 1937.

The ACTING CHAIRMAN: These are the details of the \$65,721,700. Are there any questions in regard to that section?

Hon. Mr. STEWART: I might ask in regard to purchases of equipment under the contribution act of the government of last year for the relief of unemployment. Does that help you in the coming year? Will it reduce the amount that you would otherwise have to provide? What I mean, is it going to help you in this statement in the coming year, or do you contemplate spending a similar amount?

Mr. HUNGERFORD: I do not quite understand, Mr. Stewart.

Hon. Mr. STEWART: Parliament made provision for the relief of unemployment under the special supplementary estimates for the purchase of new equipment.

Hon. Mr. HOWE: Last year?

Hon. Mr. STEWART: Yes.

Hon. Mr. HOWE: No, nothing made for the purchase of railway equipment. What provision was made was made as a contribution to the maintenance of way.

Hon. Mr. STEWART: Yes.

Hon. Mr. HOWE: Fixing up the road, etc.

Hon. Mr. STEWART: Was not there some special—

Hon. Mr. HOWE: In 1935 there was some equipment purchased.

Hon. Mr. STEWART: Had you not in 1936 something along the same line with regard to the purchase of equipment?

Hon. Mr. HOWE: No, nothing.

Mr. KINLEY: It was worked out in 1936?

Hon. Mr. HOWE: Some delivered in 1936, yes.

Hon. Mr. STEWART: I remember the figures in 1936, and I remember going over something like that. I thought it was made in 1936.

Hon. Mr. HOWE: Out of the public works appropriation in 1935, some of the payments were made in 1936. I think it was all paid for in last year's budget; nothing in the new budget.

Hon. Mr. STEWART: The point remains the same, whether this appropriation will affect your expenditures during the coming year in the same connection.

Mr. HUNGERFORD: I suppose we will need more equipment in the future under the requirements of traffic.

Hon. Mr. STEWART: Then, with regard to the deferred maintenance of roadway operations in the last year; will that reduce your commitments or your necessary expenditures during this year? Have you overtaken it or will you have to have some assistance on that?

Mr. HUNGERFORD: Most of the work done in connection with the maintenance program last year was of a character that we could have carried forward and done a little bit later. Undoubtedly we will have some benefit from it. How much is problematical.

Hon. Mr. STEWART: How does the proposed expenditure this year on the maintenance of roadway compare with last year?

Mr. HUNGERFORD: Somewhat reduced.

Hon. Mr. STEWART: Reduced this year?

Mr. HUNGERFORD: Yes.

Hon. Mr. STEWART: I assume that would be because of the work done last year under the special appropriation, to some extent at least?

Mr. HUNGERFORD: To some extent, but possibly not to a very great extent.

Mr. KINLEY: Would it not be fair to assume that last year was a special year? Take another year. Is it higher than two years ago?

Hon. Mr. HOWE: We picked up the arrears last year. This year it will be normal maintenance, I think; last year we picked up a lot of arrears.

The ACTING CHAIRMAN: Are there any further questions with regard to this statement? If not we will pass on to the next, dealing with capital expenditures and the acquisition of securities. Have you any questions to ask in regard to page 3?

Hon. Mr. STEWART: "Betterments to Equipment, \$2,675,617." How does that compare with last year?

Mr. ARMSTRONG: The figure was \$1,322,000 last year.

Mr. RYAN: I see reference here to the Fredericton Bridge, \$1,250,000. What will the total contract amount to?

Mr. HUNGERFORD: The contract has not been let.

Mr. RYAN: Will it soon be let?

Mr. HUNGERFORD: Possibly.

Mr. RYAN: I beg your pardon.

Mr. HUNGERFORD: I say possibly.

Mr. RYAN: Can you not give me anything more definite than that?

Mr. HUNGERFORD: It depends upon certain arrangements with the Canadian Pacific Railway. I am hopeful that we will reach a conclusion in our negotiations at an early date.

Mr. RYAN: I was under the impression that the negotiations had been concluded. Is that not correct?

Mr. HUNGERFORD: Not entirely.

Mr. RYAN: What is the estimated cost of the bridge?

Mr. HUNGERFORD: The bridge and approaches will cost about one and a quarter million dollars.

Mr. RYAN: Can you give me any idea as to when you definitely expect to call for tenders?

Mr. HUNGERFORD: We hope to do so in the near future. As a matter of fact, we have already called for tenders on the steel work.

Mr. RYAN: Have you started the dismantling?

Mr. HUNGERFORD: Not for the substructure.

Mr. RYAN: I presume you appreciate the urgency in this matter?

Mr. HUNGERFORD: Oh, yes, very much so.

The ACTING CHAIRMAN: If there are no further questions we will pass on to page 4.

Hon. Mr. HOWE: The explanation of the amount in the capital budget is that part of the cost has to come out of operating, due to the fact that it is replacing an existing facility.

The ACTING CHAIRMAN: Page 4, estimated capital expenditures, acquisition of securities. Are there any questions in regard to these new equipment purchases?

Mr. HANSON: What is the total number of cars owned by the Canadian National Railway. I see that there are over 3,000 new ones to be built. Have you got that figure?

Mr. ARMSTRONG: Freight equipment at the end of the year, 95,993.

Mr. HANSON. Passenger?

Mr. ARMSTRONG: 3,022, and 5,852 work equipment. That is given in the annual report at page 27.

Mr. HUNGERFORD: Yes. It is fully set out in the annual report.

Mr. BARBER: Are these new cars air conditioned?

Mr. HUNGERFORD: Yes, the new ones are.

Mr. BARBER: What does it cost to air condition a car—a car that was not air conditioned but has been in use?

Mr. HUNGERFORD: To air condition a new car costs anywhere from, perhaps, \$5,000 to \$9,000, depending on the character of the car.

Mr. BARBER: I have heard it reported that it costs as much as \$15,000; is that correct?

Mr. HUNGERFORD: Not in our experience.

Mr. BEAUBIEN: Do you air condition these cars in your own shops?

Mr. HUNGERFORD: We are doing some of it, and we are having some of that work done outside.

The ACTING CHAIRMAN: If there are no further questions we will pass from page 4 to page 5. "Retirement of Maturing Capital Obligations." Are there any questions on page 5? If there are not we will pass to page 6, "Canadian National (West Indies) Steamships Limited."

Mr. HANSON: Just one moment before you leave page 5. I notice railway bonds drawing interest at 7 per cent, and I see several drawing interest at 5 per cent. Is any arrangement made to have those bonds refinanced at a lower date of interest?

The ACTING CHAIRMAN: They are due January 1, 1938.

Mr. HANSON: They are not payable before that time, are they?

Mr. HUNGERFORD: No, not callable.

Hon. Mr. STEWART: It is a small amount of \$11,000,000 odd.

Mr. HANSON: That represents \$7,000,000.

The ACTING CHAIRMAN: Page 6. Are there any questions with regard to the West Indies service. If not, that completes that section of the report.

Hon. Mr. STEWART: We are going fairly rapidly.

The ACTING CHAIRMAN: We are doing pretty well.

Hon. Mr. STEWART: We have not had time to study these matters. I do not think we are in a position to ask questions just by looking at a page.

The ACTING CHAIRMAN: We will have plenty of time for questions.

Mr. HANSON: On page 6 I notice the item "Interest Requirements on 5 per cent 25-year bonds issued in 1930, Principal Amount \$9,400,000." They are not redeemable, are they?

Mr. McLAREN: What was your question, please?

Mr. HANSON: I was referring to that 25-year bond issue, 1930, \$9,400,000 at 5 per cent. Are they not redeemable? Could they not be redeemed at any time and refinanced at a lower rate of interest?

Mr. McLAREN: They are not callable.

Mr. HANSON: Is it the practice of the railway to issue long term bonds that are not callable?

Mr. McLAREN: We have issued securities that are callable, and some are issued that are not callable.

Mr. HANSON: Is it not a good practice to have them callable?

Mr. McLAREN: Personally, I would say it is a very good idea to have callable issues.

Mr. HANSON: What is the reason you are not doing it? Is it easier to sell them?

Hon. Mr. STEWART: It depends upon when you could sell them.

Mr. McLAREN: It is a question of whether a callable clause is included or not.

Mr. KINLEY: What is the New England Elevator Company? I notice you have a mortgage on it.

Mr. McLAREN: That is an elevator down in Portland, Maine, a grain elevator.

Mr. KINLEY: What amount have you invested in equipment at Portland, Maine?

Mr. McLAREN: What class of equipment?

Mr. KINLEY: You must have terminals, and you say you have a grain elevator.

Mr. McLAREN: We have two grain elevators there and docks and terminals, yard facilities and shipping facilities.

Mr. BEAUBIEN: Do the elevators belong to the Canadian National Railways?

Mr. McLAREN: Yes.

Mr. KINLEY: To whom do they belong?

Mr. McLAREN: The Canadian National Railway.

Mr. KINLEY: I see you have first mortgage bonds on the New England Elevator Company. Do you own and operate the elevators down there yourselves?

Mr. HUNGERFORD: The answer is that they are not being operated very much.

Mr. KINLEY: That is commendable. Still we own them and they are there; but we are not extending them any?

Mr. HUNGERFORD: No, not at all.

The ACTING CHAIRMAN: Have you any further questions to ask with regard to page 6?

Mr. HUNGERFORD: Someone asked about the particulars of capital expenditures, in connection with Lady boats. I might point out that the details are given at the bottom of page 6.

Mr. KINLEY: Expenditures on improvements and that sort of thing. It is not very much.

The ACTING CHAIRMAN: If there are no questions to be asked with regard to the contents of this page we will allow it to pass.

Now, we have in front of us Bill 73.

Mr. RYAN: Before we leave this, I would like to ask the president again about the Fredericton Bridge, because I am anxious about that. I would like to know if these negotiations with the Canadian Pacific Railway are being speeded up?

Mr. HUNGERFORD: I can only say that I believe they are just about concluded now.

The ACTING CHAIRMAN: Bill 73.

Hon. Mr. STEWART: Do we require the officials of the railway to be here when we are discussing this bill? If not, I suggest we leave the bill over for another meeting.

The ACTING CHAIRMAN: Is there anything in the bill that is contentious?

Hon. Mr. STEWART: You were facilitated in having the bill rushed through the house yesterday; now you want to rush it through here.

The ACTING CHAIRMAN: Not at all. We will not rush anything through.

Hon. Mr. STEWART: The minister said he was anxious to get the bill over here, so it was sent here. I suggest that if we do not require the officials to be here we should allow the bill to stand over until the next meeting.

The ACTING CHAIRMAN: We have done well; if it meets with the approval of the committee we will adjourn.

Mr. BOTHWELL: I think the suggestion that has been made by Mr. Stewart is a good one. Let us get through with the matters in which the officials are interested first. There are certain votes referred to this committee also. It might be well for the members to look at these and see if they are interested in them.

The ACTING CHAIRMAN: Now, I have here the order of reference:—

That the resolution passed by this house on the 18th January, 1937, referring the following estimates to the committee of supply, be rescinded, and that the said estimates be now referred to the select standing committee on railways and shipping.

Vote 96 M.F.R.A.—Canadian National Railways eastern lines, 20 per cent reduction in tolls, \$1,800,000.

Vote 97 M.F.R.A.—Railways other than C.N.R. 20 per cent reduction in tolls, \$700,000.

Vote 293—Canadian National (W.I.) S.S. capital, \$48,500.

Vote 361—Canadian National Railway deficit 1937, \$35,000,000.

Vote 362—Canadian National W.I., S.S., working capital, \$500,000.

Mr. BOTHWELL: There is that item of \$500,000. All these other items have been covered pretty well, but that item \$500,000 strikes me as being new. Possibly the information has been distributed to the members of the committee. We have had an opportunity of discussing all of these votes, but some other item may have occurred to somebody else. I do not know what that \$500,000 item is.

Mr. SMART: That is in your estimates, votes 96, 97, 293, 361 and 362; then there are the supplementaries.

Mr. McLAREN: I might explain by saying that the Canadian Government Merchant Marine was the banker for the West Indies Company, and now that the Merchant Marine is going out of business in a short time the West Indies Company are carrying on with the money that has been advanced to the Merchant Marine by the government. The money will be paid back to the government; but we are asking for authority to obtain working capital for the West Indies.

Mr. BOTHWELL: If we are going to continue until 1 o'clock, I would suggest that we deal with each of these votes instead of with the bill. I cannot see the necessity of having the officials here when we consider the bill in committee, but there may be questions we may want to ask them in regard to these different votes.

The ACTING CHAIRMAN: Let us take vote 96.

Mr. BOTHWELL: \$1,800,000.

Hon. Mr. STEWART: Is that to be found in the main estimates?

The ACTING CHAIRMAN: Yes; vote 96.

Mr. BOTHWELL: What is the reason for that increase?

Mr. RYAN: Increased business, I presume.

Mr. HUNGERFORD: Yes, it is simply an estimate, of course.

The ACTING CHAIRMAN: The more business we have the more we have to pay. Is that item agreed to?

Mr. RYAN: Certainly. We cannot find any fault with it.
(Item agreed to).

The ACTING CHAIRMAN: Vote 97, railways other than the C.N.R.—tolls—\$700,000. There is a decrease in that particular vote.
(Item agreed to).

Vote 293. Canadian National (West Indies) Steamships Limited, \$48,500. That is found at page 62 in the main estimates.

Hon. Mr. STEWART: Of course, this will come up again in the house.

Mr. BEAUBIEN: Vote 98 had nothing to do with the Canadian National Railway; it has to do with the Hudson Bay Railway.

Mr. SMART: We will take care of that in the house.

Mr. RYAN: There is no objection to this item.

The ACTING CHAIRMAN: Is this item agreed to? There is an increase of \$19,050.

Mr. SMART: Mr. Stewart, you will notice at the bottom of the first page in this budget "Canadian National Steamships," and there is an amount there "Additions and Betterments, \$98,500." \$48,500 were put in the main estimates, and it was not until after the main estimates had been tabled that we found we had to add \$50,000 to that. You will get another item of \$50,000 in the supplementaries. I do not think they are tabled yet.

Mr. RYAN: It is very essential for improvements and betterments judging from the evidence given here this morning.

Mr. SMART: Quite. It is provided for; but we did not have the information when the main estimates were asked for. We only had \$48,000. Now we have had to add \$50,000 to take care of this matter and that sum will be shown in the supplementaries when they are tabled.

The ACTING CHAIRMAN: Is vote 293 agreed to?

Hon. Mr. STEWART: It looks all right.
(Item agreed to.)

The ACTING CHAIRMAN: Vote 361. That refers to the deficit we have been discussing of \$35,000,000. Is that agreed to? That is in your supplementaries. Canadian National Deficit for 1937. That is \$35,000,000 instead of \$43,000,000 last year. Is that agreed to?

Hon. Mr. STEWART: This is an estimate only for 1937.

The ACTING CHAIRMAN: It is an estimate only, yes.
(Item agreed to.)

Vote 362. That is the vote Mr. Bothwell was asking about.

Hon. Mr. STEWART: Might I ask what the estimated deficit for the year 1936 was—the item corresponding here?

Mr. SMART: \$39,900,000; and the actual deficit was \$43,303,000.

Hon. Mr. STEWART: I hope it will be better this year.

The ACTING CHAIRMAN: The explanation was given with regard to vote 362. Are there any further questions on that?

Hon. Mr. STEWART: As I understand it, the working capital is \$500,000 and that will be paid over by the company that has gone out of existence to the government and advanced to this other company.

Mr. SMART: They will pay whatever cash they have back to the government, and this is an item transferring to the West Indies Company \$500,000.

Hon. Mr. STEWART: Is the amount to be transferred greater than the amount to be paid back?

Mr. McLAREN: The amount to be paid back will be \$495,000.

Hon. Mr. STEWART: It is approximately the same.

Mr. McLAREN: Yes.

Hon. Mr. STEWART: That is what I understood.

Mr. BOTHWELL: You are estimating this year for practically the same amount as last year.

Hon. Mr. STEWART: This is working capital.

Mr. SMART: Formerly they used the Canadian Government Merchant Marine working capital, and the West Indies really did not have any working capital; they use the same capital.

The ACTING CHAIRMAN: Is that explanation satisfactory? Is vote 362 agreed to?

(Item agreed to.)

Now, it seems to me that we have done pretty well today, and if it meets with the view of the committee—

Mr. BOTHWELL: There is one question I might as well ask while we are here instead of having to ask it in the house. In connection with that vote 293, \$48,500 is the vote for this year as compared with \$29,450, for last year, and the deputy minister has explained, and the budget shows, that another \$50,000 will be required which will be shown in the supplementary vote, and that will bring the amount up to \$98,500 as against the vote last year of \$29,450. Could we have an explanation?

The ACTING CHAIRMAN: That is to be found at the bottom of page 6.

Mr. BOTHWELL: I looked at page 6 and I still am not clear as to the difference in that vote.

Mr. VAUGHAN: That represents the amount to increase the passenger carrying capacity of the boats—about thirty-two passengers each.

The ACTING CHAIRMAN: Is that satisfactory?

Mr. BOTHWELL: Yes. I could not find the answer.

Mr. RYAN: What is there to come up at our next meeting?

Mr. SMART: There is that one item \$50,000 if the supplementary estimates are tabled. You have the whole explanation.

The ACTING CHAIRMAN: I would like an expression of opinion from the committee as to whether they would like the management of the road to be here at our next meeting. We do not want to disturb the work of the road unless it is absolutely necessary.

Hon. Mr. STEWART: It would appear to me that since the subject matter of this bill has been gone over and explained in the budget and in these other items we have before us that we certainly should not require the attendance of the officials at our next meeting unless something unforeseen develops.

Mr. BOTHWELL: We will have the deputy minister with us.

Mr. SMART: The only item outside of the bill is that item of \$50,000, and you have an explanation on it now.

The ACTING CHAIRMAN: We will not ask the officials to be here, but we will meet Tuesday morning at 11 o'clock.

The Committee adjourned to meet Tuesday, March 23 at 11 o'clock.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

March 23, 1937.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, Mr. A. M. Young the acting chairman presided.

The ACTING CHAIRMAN: We have bill 73 before us this morning:—

An Act to authorize the provision of moneys to meet certain expenditures made and indebtedness incurred by the Canadian National Railways during the calendar year 1937, and to authorize the guarantee by His Majesty of certain securities to be issued by the Canadian National Railways.

This bill covers many of those things which we have already discussed and agreed upon. I do not know whether you want the clauses of the bill read.

Mr. HEAPS: I think we can dispense with that.

Mr. HANSON: It is the same bill we have always passed in other years is it not?

The ACTING CHAIRMAN: Yes. Shall clause 1 carry?— (Item agreed to.) Shall clause 2 carry?

Mr. HEAPS: Perhaps the minister would like to make a statement to save any discussion on this clause.

Hon. Mr. HOWE: This is the usual financing bill. It provides for the capital expenditures on the railway; it gives authority for such refunding as is required in the year.

Mr. BEAUBIEN: That refers to the capital expenditure which we discussed in the budget.

Hon. Mr. HOWE: Yes, that is it. .

Mr. ELLIOTT: How do you make up that item of \$30,721,700?

The Acting CHAIRMAN: You will find part of it on page 1 and part of it on page 2.

Hon. Mr. HOWE: Yes. Retirement of capital obligations, \$7,114,000. Of course, that is just a refunding operation. It does not change the debt position, but authority has to be obtained, and parliament can give it. Then there is the item of general additions and betterments less equipment retirements. The equipment retirement is \$7,389,000 odd and is the amount taken out of the earnings each year to provide for equipment retirements, and that is offset against general additions and betterments, as discussed in the budget, of \$11,289,000 odd. Then there is acquisition of new securities, or securing the securities of some of the small subsidiaries which we are trying to clean up, and the amount there is \$561,000. Equipment purchased amounts to \$19,396,000 odd: making a total of \$23,857,000 odd.

Mr. SMART: They are using \$250,000 of working capital.

Hon. Mr. HOWE: They, apparently, have some surplus working capital they are applying against the capital requirements.

(Item agreed to.)

The ACTING CHAIRMAN: Clause 3.

Mr. RYAN: Was there a similar section to this last year?

The ACTING CHAIRMAN: It is the same as last year.

Mr. ELLIOTT: Is the method the same as has been in effect during previous years?

Hon. Mr. HOWE: Yes. Under the Canadian National-Canadian Pacific Act it is required that all capital expenditures shall receive the approval of parliament and also all refunding operations; and this is the bill that has been passed pursuant to that Act to give the necessary authority.

(Item agreed to).

The ACTING CHAIRMAN: Clause 4.

Mr. WALSH: What is the significance of clause 4 in regard to aiding and assisting other companies?

Hon. Mr. HOWE: The Canadian National, as has been said in connection with the capitalization bill, has no direct ownership of the Canadian Northern railway; neither has it any direct ownership of the Intercolonial railway: and all the financing of those two railways is done through the Canadian National Railway. Without this clause the Canadian National Railway could hardly spend anything on a railway over which it has no ownership.

Mr. WALSH: That clause will be eliminated next year.

Hon. Mr. HOWE: Yes, I think so.

Mr. HEAPS: This is the bill we have had before us in other years.

Hon. Mr. HOWE: It is exactly the same.

(Item agreed to).

The ACTING CHAIRMAN: Clause 5.

Mr. WALSH: What is the inference there?

Hon. Mr. HOWE: It allows the government to guarantee the funds under section 2 of the act. Section 2 authorizes certain refunding and funding of new capital obligations.

Mr. WALSH: This bill deals altogether with capital requirements, not ordinary requirements.

Hon. Mr. HOWE: Not the deficit, no; that is in the budget.

(Item agreed to).

The ACTING CHAIRMAN: Clause 6.

Mr. WALSH: What is the reference? "The guarantee or guarantees may be in such forms and subject to such terms and conditions. . . ." and so on.

Hon. Mr. HOWE: That has to do with clause 5. Clause 5 allows the government to guarantee, and clause 6 sets out the form of guarantee that may be used.

(Item agreed to).

The ACTING CHAIRMAN: Clause 7.

Mr. WALSH: All these amounts are charged against the consolidated fund of Canada directly.

Hon. Mr. HOWE: No, not at all. The bonds are private.

Mr. WALSH: The money is borrowed by the Minister of Finance.

Hon. Mr. HOWE: No. It is borrowed by the Canadian National Railways and guaranteed by the government.

Mr. WALSH: And the Canadian National Railway assumes responsibility for the interest.

Hon. Mr. HOWE: That is right.

Mr. WALSH: And for the repayment.

Hon. Mr. HOWE: The item is in the balance sheet—long term debt in the hands of the public.

Mr. WALSH: And the interest on that is charged in the balance sheet.

Hon. Mr. HOWE: Yes. It is charged against operation.
(Item agreed to).

The ACTING CHAIRMAN: Shall the title carry?
(Carried).

The ACTING CHAIRMAN: Shall I report the bill?
(Carried).

Now, then, I think that covers all that has been referred to us. There is only one other item that might come in the estimates and that has to do with the \$50,000 item which we have already discussed. I do not imagine it is necessary to refer it to this committee.

Hon. Mr. HOWE: Which item is that?

Mr. SMART: \$98,500 was required. In the main estimates there was a sum of \$48,500 provided. Now they are coming along with the other \$50,000 and it will be in the supplementaries.

Mr. RYAN: We discussed that at the last meeting of the committee.

Hon. Mr. HOWE: I think that can be passed in committee of the whole.

Mr. BARBER: It is not in the estimates that have been tabled, is it?

Hon. Mr. HOWE: No. It will be tabled with the supplementaries.

The ACTING CHAIRMAN: We discussed the item the last day we were here.

Hon. Mr. HOWE: It will be in the final supplementaries which have not yet been tabled.

Mr. RYAN: The amount is to provide for improvements in the Canadian National Steamships.

Hon. Mr. HOWE: Yes; the change from second class to first class.

Mr. RYAN: It is for increasing the accommodation.

The ACTING CHAIRMAN: With the exception of a final meeting to adopt our report, we have completed everything that has been referred to the committee. The report will be drawn up and the committee will come together to consider it.

Mr. WALSH: Might I intrude a question. I was not here at the last meeting, and there was a question I wanted to ask. You can rule it out of order if it is beside the point. I was going to ask if the minister filed a profit and loss statement for the Canadian National Steamships on the Pacific coast similar to that filed with the committee last year and published on page 195 of the proceedings of evidence on May 7, 1936. It was done last year, and I wonder if it could be done this year.

Hon. Mr. HOWE: That has reference to the railway's ships. Yes. I think that can be done. (See Appendix A)

Mr. WALSH: Yes, they are run in conjunction with the railway on the Pacific coast. I hope we can get the same information this year so as to bring that matter up to date.

Hon. Mr. HOWE: We will get that for you. We have a service running from Prince Rupert to Alaska—the Prince Robert, the Prince George and the Prince Charles; I think we have one of the new Prince boats that makes summer trips.

Mr. HEAPS: All we have is that service between Vancouver, Victoria and the north.

Hon. Mr. HOWE: There is no service to Victoria; these boats run from Vancouver to Ocean Falls and Prince Rupert.

Mr. HEAPS: We have three steamers.

Hon. Mr. HOWE: We have three steamers on the service, plus one of the new Lady boats which is on summer cruise.

Mr. HEAPS: What has happened to these boats on the Vancouver-Victoria route?

Hon. Mr. HOWE: These are the Prince boats we have been having trouble with. We have abandoned that service, and since then these three boats have been in various waters. One of them is used on the Pacific coast to take summer cruises to Alaska; the other two are on the Atlantic. They were leased to Cruises Limited. I think one has been leased to the Clarke Steamship Company for use along the Gaspé coast on the St. Lawrence river.

Mr. WALSH: Before we adjourn, I would like to make a statement this morning relative to the debate yesterday in the house. I do not want the members of this committee to consider that I was an offensive member intruding certain suggestions that should not be intruded into the deliberations of a committee such as this, but I did intrude them, and I intruded them in good faith. However, I certainly had no personal reference to any person connected with this committee and certainly not to the Minister of Transport whom I hold in the highest esteem as he knows himself. The only point I wanted to make was that I differed with him on principle. Personally I am glad to see a man like Mr. Howe in public life in Canada, even if he happens to be on the Liberal side.

Mr. HEAPS: The apology is accepted.

Hon. Mr. HOWE: This has been a very gentlemanly committee, and no apology is necessary from anybody.

The ACTING CHAIRMAN: Speaking for myself as pinch hitter for Sir Eugene who, unfortunately, has been ill, I thank the members of the committee for their kind assistance and help during the meetings we have held without our regular chairman. Every member of the committee has done his best to bring to view those things which should be brought to our notice, and we have had very fair discussion on all the matters.

The Committee adjourned to the call of the Chair.

APPENDIX A

CANADIAN NATIONAL STEAMSHIPS (PACIFIC COAST) CONDENSED INCOME STATEMENT INCLUDING PROFIT AND LOSS

YEAR 1936

Total Revenue..	\$1,374,931
Total Expenses..	1,520,679
Net Revenue..	145,748
Taxes..	53,758
Operating Income..	199,506
Other Income Dr. or Cr..	25,176
Net Income or Deficit..	224,682
Profit and Loss Dr. or Cr..	—
Net Surplus or Loss..	224,682

NOTE:—The above results do not include Depreciation and Interest on Investment.

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Canada. Railways and Shipping
Standing Committee, 1937

SESSION 1937
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS

No. 8

FRIDAY, APRIL 2, 1937



FINAL REPORT OF THE COMMITTEE

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1937

MINUTES OF PROCEEDINGS

THURSDAY, April 1, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 10.30 a.m., the Chairman, Sir Eugene Fiset presiding.

Members present: Messrs. Barber, Beaubien, Beaubier, Elliott (*Kindersley*), Ferland, Heaps, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Stewart and Young.

The Chairman submitted a draft report which was unanimously adopted with minor amendments, the Chairman being authorized to present said report to the House.

The Chairman thanked the members of the committee for their co-operation and Mr. Young for replacing him in the Chair during his unavoidable absence.

The committee adjourned *sine die*.

R. ARSENAULT,

Clerk of the Committee.

REPORT TO THE HOUSE

Fifth and Final Report

FRIDAY, April 2, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its Fifth and Final Report.

Your committee has held nine sittings during which it has dealt with the following matters referred by the House viz:—

(a) Bill No. 12, an Act to provide for revision of the accounting set-up of the Canadian National Railway System.—Reported upon March 11.

(b) Items Nos. 96, 97, 293, 361 and 362 of the Main and Special Supplementary Estimates.—Reported upon March 22.

(c) Bill No. 73, an Act to authorize the provision of moneys to meet certain expenditures made and indebtedness incurred by the Canadian National Railways during the calendar year, 1937, and to authorize the guarantee of certain securities to be issued by the Canadian National Railways.—Reported upon March 23.

(d) The financial statements of the Canadian National Railways, including the annual report of the Canadian National Railway System, the Auditors' Report, the annual report of the Canadian Government Merchant Marine, Limited, and the Canadian National (West Indies) Steamships, Limited, and the Canadian National Railways' and the Canadian National (West Indies) Steamships' budget for 1937.

With respect to Bill No. 12, although your committee expressed its willingness to hear representations on the subject matter of the Bill, the Canadian Chamber of Commerce, Montreal, were the only applicants for a hearing before the committee, their representations having been made through the Chairman of their executive, Mr. Henry W. Morgan.

Your committee appreciates the assistance given by the officers of the Canadian National Railways and the Deputy Ministers of Transport and Finance during the examination of the Bill and Schedules pertaining thereto.

In reporting the said Bill to the House, your committee recommended the following main amendments:—

(a) Amendment to Section 8 providing for the inclusion in the Public Accounts of the adjustments (set out in Schedule "B" of the Bill) of differences between the Public Accounts and the accounts of the National Railway System and the Hudson Bay Railway;

(b) An additional clause providing for an annual report to Parliament by the Trustees of the Securities Trust; and

(c) A further additional clause providing for an appendix to be added annually to the Public Accounts of Canada, indicating the total assistance given to all railways by the Dominion Government and the manner in which such assistance has been dealt with in the Public Accounts.

In order further to clarify the Bill, it was deemed advisable by your committee to substitute the 1936 figures for those of the year 1935, as given in the original Bill, in Schedule "A" and "B," as well as in Appendices 4, 5 and 6 of the Bill.

The Annual Report of the Canadian National Railway System for the year ending December 31, 1936, shows a cash deficit of \$39,900,000. For the year 1937, the operating revenues are estimated at \$205,000,000, and the oper-

ating expenses at \$182,550,000. Sundry items charged against operating revenues, including interest on long term debt due to the public, amount to \$61,350,000, bringing the estimated deficit on the year's operations to \$38,900,000. The anticipated net cash requirement on deficit account is, however, reduced to \$35,000,000, after deducting the following items which are not required in cash, viz:—Depreciation revenue, \$630,000; amortization of discount on funded debt, \$1,370,000, and loss on retired road and property, etc., \$1,900,000.

The Annual Report of the Canadian Government Merchant Marine, Limited, indicates that all remaining vessels of the fleet have been sold, that practically all the affairs of the Company have been liquidated, and that the services it formerly operated will be continued by a Company known as the Montreal Australia New Zealand Line, Limited.

With reference to the Annual Report of the Canadian National (West Indies) Steamships, Limited, your committee notes with pleasure the steady improvement shown in the operating results of these services. For the first time since the formation of the Company, it has earned a surplus after meeting the interest on the bonds in the hands of the public.

The above-mentioned financial statements were examined by your committee in the light of the explanations given by the following officers of the Canadian National Railway System:

Mr. S. J. Hungerford, President.

Mr. D. C. Grant, Vice-President of Finance.

Mr. R. C. Vaughan, Vice-President, Purchases and Stores Department.

Mr. J. B. MacLaren, Comptroller.

Mr. T. H. Cooper, Assistant Comptroller.

Mr. W. M. Armstrong, Bureau of Economics.

Mr. A. V. Franklin, Railway Auditor, Department of Finance.

A copy of the Minutes of Proceedings and Evidence is annexed hereto.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

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Session 1938
House of Commons

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SESSION 1938
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

WEDNESDAY, APRIL 6, 1938

TUESDAY, APRIL 26, 1938

WITNESSES:

Mr. S. J. Hungerford, Chairman, Board of Directors, and President;
Mr. T. H. Cooper, Comptroller, and Mr. W. M. Armstrong, Assistant
Director, Bureau of Economics Canadian National Railways, Montreal.

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1938

MEMBERS OF THE COMMITTEE

Sir EUGÈNE Fiset, *Chairman*

and

Messieurs

Barber,
Beaubier,
Bothwell,
Elliot (*Kindersley*),
Emmerson,
Ferland,
Fraser,
Hanson,
Heaps,
Howard,
Howden,
Howe,

Kinley,
McKinnon (*Kenora-Rainy
River*),
McLarty,
Maybank,
Parent (*Quebec West and
South*),
Ross (*Middlesex East*),
Stewart,
Vien,
Walsh,
Young.

R. ARSENAULT,

Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

THURSDAY, February 24, 1938

Resolved,—That Standing Order 63 of the House of Commons, relating to the appointment of standing committees of the House, be amended by adding to the standing committees of the House for the present session a Standing Committee on Railways and Shipping owned, operated and controlled by the Government, to which will be referred accounts and estimates and bills relating thereto of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and report to the House; provided however that nothing in the resolution shall be construed to curtail in any way the full right of discussion in committee of supply; and that the said committee consist of Messrs. Barber, Beaubier, Bothwell, Deachman, Elliott (*Kindersley*), Emmerson, Ferland, Fiset (*Sir Eugene*), Fraser, Hanson, Heaps, Howard, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), McLarty, Maybank, Parent (*Quebec West and South*), Stewart, Vien, Walsh and Young.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, February 7, 1938.

Ordered,—That the Standing Committee on Railways and Shipping owned, operated and controlled by the Government, be empowered to examine and enquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, March 8, 1938.

Ordered,—That the name of Mr. Ross (*Middlesex East*) be substituted for that of Mr. Deachman on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, March 29, 1938.

Ordered,—That the Resolution passed by this House on February 11, 1938, referring the following estimates to the Committee of Supply, be rescinded, and that the said estimates be now referred to the Standing Committee on Railways and Shipping:—

Vote 427, Maritime Freight Rates Act, Canadian National Railways, Eastern Lines, 20 per cent reduction in tolls, \$2,278,000;

Vote 428, Maritime Freight Rates Act, railways other than Canadian National Railways, 20 per cent reduction in tolls, \$860,000;

Vote 437, Prince Edward Island Car Ferry and Terminals, capital, \$35,000;

Vote 438, Canadian National (West Indies) Steamships, Limited, capital, \$24,000.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, April 6, 1938.

Ordered,—That the said Committee be given leave to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That it be given leave to sit while the House is sitting.

Ordered,—That the quorum of the Committee be reduced from 12 to 10.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

WEDNESDAY, April 6, 1938.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as a

FIRST REPORT

Your Committee recommends:—

1. That it be given leave to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

2. That it be given leave to sit while the House is sitting.

3. That the quorum of the Committee be reduced from 12 to 10.

All of which is respectfully submitted.

EUGENE FISET,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 6, 1938.

The Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, met at 11 a.m.

Members present: Messrs. Barber, Bothwell, Emmerson, Fiset (Sir Eugene), Hanson, Heaps, Howard, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), McLarty, Maybank, Stewart, Walsh, Ross (*Middlesex East*), Young.

On motion of Mr. Young, Sir Eugene Fiset was elected Chairman.

Sir Eugene Fiset took the Chair.

A request from Mr. D. J. Hartigan, M.P., that the Committee hear a representative of Operators of the Western Union who were absorbed into the Canadian National Railway System, was submitted to the Committee.

On motion of Mr. Howden,

Ordered, That the Clerk inform Mr. Hartigan that the Committee has no jurisdiction in the matter.

On motion of Mr. Maybank,

Resolved, That the Committee request permission to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Young,

Resolved, That the Committee request permission to sit while the House is sitting.

On motion of Mr. Howard,

Resolved, That the Committee recommend to the House that its quorum be reduced from 12 to 10.

Messrs. Stewart and Walsh filed questions to be submitted to the President of the Canadian National Railways, to be answered by officials of the Railway when appearing before the Committee.

The Committee adjourned until Tuesday, April 26, at 11 a.m.

R. ARSENAULT,

Clerk of the Committee.

TUESDAY, April 26, 1938.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m., the Chairman, Sir Eugene Fiset presiding.

Members present: Messrs. Bothwell, Emmerson, Ferland, Fiset (Sir Eugene), Hanson, Heaps, Howden, Howe, McKinnon (*Kenora-Rainy River*), McLarty, Parent (*Quebec West and South*), Stewart, Vien, Walsh, Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport, Mr. S. J. Hungerford, President, Canadian National Railways, Mr. T. H. Cooper, Comptroller, C.N. Rys., Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, C.N. Rys., Mr. A. V. Franklin, Railway Auditor, Department of Finance, and Mr. O. A. Matthews, of George A. Touche & Co., Auditors of C.N.R. Accounts.

Mr. Cooper filed answers to questions submitted by Mr. Walsh on April 6.

The Committee proceeded to the consideration of the Annual Report of the Canadian National Railway System for the year ended December 31, 1937.

At 1 o'clock the Committee adjourned until 4 p.m.

AFTERNOON SITTING

The Committee resumed at 4.15 p.m. and gave further consideration to the Annual Report of the Canadian National Railway System.

At six o'clock the Committee adjourned until to-morrow, Wednesday, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

April 26, 1938

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Sir Eugene Fiset, presided.

The CHAIRMAN: Order, gentlemen. At the last meeting of the committee you, Mr. Walsh, asked a question. The answer is ready for you now. Do you want it read into the record?

Mr. WALSH: Not necessarily, so long as it is in the report.

The CHAIRMAN: Will a copy for you be sufficient?

Mr. WALSH: Yes.

The CHAIRMAN: All right; here it is:

Question A. 1.—What was total par value of Canadian National funded debt issued from 1923 to 1937 inclusive?

Answer: Funded Debt issues 1923-1937..	\$847,367,589 11
(Excludes 2% 1927 Guaranteed Debenture Stock \$34,927,098.20 issued in exchange for like amount of G.T.P. Ry. 4% Perpetual Debenture Stock.)	

Question A. 2.—What was the amount of discount on same and the expense of issue?

Answer: Discount..	\$22,767,918 00	
Issue Expense..	634,865 47	
		23,402,783 47

Question B. 1.—How much of the par value of the issues referred to above have been retired?

Answer: Retirements to December 31, 1937, of issues made 1923 to 1937 not including exchange of G.T.P. Railway 4% Perpetual Debenture Stock referred to above..	188,769,059 72
(NOTE: The above amount does not include \$241,104,274.66 retirements during the period of issues made prior to 1923.)	

Question B. 2.—What was the amount of discount and expense applicable to the issues so retired?

Answer:	7,084,785 64
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Question C. 1.—What proportion of such discount or expense was included in the cash deficits voted by Parliament in each of the years 1933 to 1937 inclusive?

Answer: Discount and issue expense included in cash deficits:—

1933..	Nil	
1934..	\$ 1,602 02	Issue Expense
1935..	23,464 75	Issue Expense
1936..	31,102 11	Issue Expense
1937..	938,728 79	Discount

There was another question asked by Mr. Stewart, but the Canadian National officials do not feel that they should answer it; but in order to clarify the situation, before dealing with this question we shall wait until the steamship lines are being considered. At that time Mr. Vaughan will be here and will be able to give a full explanation. Is that satisfactory?

Now, gentlemen, we are to consider the annual report of the Canadian National Railways. I suppose the procedure we followed last year will be satisfactory so far as this year's proceedings are concerned. I am going to ask Mr. Armstrong to read the presidential address.

Mr. ARMSTRONG:

CANADIAN NATIONAL RAILWAYS

MONTREAL, March 18th., 1938.

The Honourable C. D. HOWE, M.P.,
Minister of Transport,
Ottawa.

SIR,—In conformity with sections 14 and 15 of The Canadian National-Canadian Pacific Act, 1936, the Board of Directors submits the following report of the operations of the Canadian National Railways for the calendar year 1937.

RESULT OF OPERATIONS

	1937	1936	Increase or Decrease
Operating Revenues..	\$198,396,608 61	\$186,610,489 38	\$11,786,119 23
Operating Expenses..	180,788,858 09	171,477,690 07	9,311,168 02
Net Operating Revenue..	\$ 17,607,750 52	\$ 15,132,799 31	\$ 2,474,951 21
Operating Ratio..	91·12%	91·89%	
Net of Other Income and Profit and Loss Requirements..	9,320,522 24	8,723,888 05	596,634 19
Net Available for Interest..	\$ 8,287,228 28	\$ 6,408,911 26	\$ 1,878,317 02
Interest on Funded Debt held by Public.. . .	48,888,545 56	49,184,622 87	296,077 31
Interest on Government Loans..	1,744,550 71	527,682 21	1,216,868 50
Cash Deficit..	\$ 42,345,867 99	\$ 43,303,393 82	\$ 957,525 83

Operating Revenues

Gross operating revenues totalled \$198,396,609, an increase over the preceding year of \$11,786,119, or 6·32 per cent, thus maintaining the progressive gain in revenues from the low point of \$148,519,742 in 1933. While all of the expected improvement in revenue did not materialize, due largely to crop conditions and also to the sharp business recession in United States territory in the latter part of the year, the increase of 6·32 per cent compares favourably with the showing of United States Class 1 railroads which reported increased revenues of 2·8 per cent over 1936.

Freight revenues increased by \$8,308,097, or 5·7 per cent. There was an increase in tonnage on all regions except the Western Region. A statement of revenue tonnage by commodities appears on pages 24 and 25. System grain tonnage decreased by 1,948,790 tons. There were no major freight rate changes during the year in Canada. Due to cancellation on December 31, 1936, by the Interstate Commerce Commission of emergency charges applying on United States and international traffic, the system freight revenues were reduced by approximately \$2,000,000 as compared with 1936. To a small extent this decrease was offset by rate increases authorized by the Commission under order dated October 19, 1937.

Passenger revenues increased by \$1,923,021, or 11·3 per cent. There were no important changes in basic passenger fares. The additional air-conditioned equipment placed in service during the year had a favourable effect upon passenger revenues. The program of air-conditioning, referred to in the 1936 annual report, is progressing actively. At December 31, 1937, there were 253 air-conditioned units in service. The program for the year 1938 provides for an additional 163 units. Air-conditioned cars operated by the Pullman Company over Canadian National lines number 53. Low fare coach excursions continued to be popular.

Commercial telegraph revenue increased \$475,682, or 10·8 per cent; Express revenue increased \$438,181, or 4·9 per cent; Mail revenue increased \$149,043, or 4·4 per cent.

Operating Expenses

Operating expenses for the year totalled \$180,788,858. A summary will be found on page 14 and details on pages 15 to 17.

Maintenance of Way and Structures expenses decreased \$2,586,618 as compared with the previous year; Maintenance of Equipment increased \$5,942,223; and Transportation \$5,405,786.

The increase of all operating expenses over those of the preceding year was \$9,311,168. Increased rates of pay, to which reference is made in another section of this report, accounted for \$2,800,000, and increases in prices of materials accounted for \$3,500,000. The program of maintaining and of modernizing rolling stock was augmented during the year, resulting in additional charges to Maintenance of Equipment expenses of \$2,500,000, the benefit of which will be reflected in subsequent years. Equipment retirement charges to operating expenses increased over the preceding year by \$730,000. There was a reduction in expenses due to the elimination of the Unemployment Relief Maintenance of Way Program of \$1,015,000, and flood damage and snow removal costs were \$528,000 less than in 1936.

The property has been efficiently maintained having regard to traffic requirements. The moderate increase in expense which resulted from the increase in traffic, apart from changes in wage rates and prices of materials, can be considered as satisfactory. The traffic in 1937 was handled at a lower operating ratio than in 1936 notwithstanding those increases in wage rates and prices of materials. The improvement in the net operating revenue was \$2,474,951.

Construction of the Senneterre-Rouyn branch line authorized by Chapter 26, 1936, is continuing. During 1937 rail was laid on 10.86 miles of track from Rouyn to the Kenojevis River and on 41.20 miles of track from Senneterre to the Lemoine Narrows bridge, leaving a distance of 48 miles on which rail remains to be laid. Effective November 29, 1937, that portion of the line between Senneterre and Val d'Or, a distance of 37 miles, was opened for operation under authority of the Board of Railway Commissioners. It is expected that the entire branch will be completed and in operation during 1938.

Owing to the limited purchases of new rolling stock in recent years, as well as growing traffic requirements, it was necessary to purchase the following additional equipment during the year: 3,000 box cars; 400 refrigerator cars; 400 gondola cars; 200 automobile cars; 49 flat cars; 30 sand cars; 50 first class air-conditioned passenger coaches; 10 mail and express cars; 10 baggage cars, and 15 snow plows.

The following table shows the new equipment delivered each year from 1928 to 1937 inclusive:—

Year	Locomotives	Freight Train Cars	Passenger Train Cars	Work Equipment Units	Total
1928.. . . .	10	360	72	40	482
1929.. . . .	76	5,757	91	46	5,970
1930.. . . .	69	4,934	76	16	5,095
1931.. . . .	23	4,301	11	4	4,339
1932.. . . .	1	....	..	..	1
1933.. . . .	..	500	..	..	500
1934.. . . .	..	....	..	..	....
1935.. . . .	..	61	..	2	63
1936.. . . .	15	1,219	..	10	1,244
1937.. . . .	..	3,769	60	2	3,831
	<hr/> 194	<hr/> 20,901	<hr/> 310	<hr/> 120	<hr/> 21,525

FINANCE

Retirement of Obligations

Expenditures for the retirement of capital obligations, including sinking fund and equipment trust principal payments, amounted to \$6,752,792.

New Issues

Under authority of the Canadian National Railways Refunding Act, 1935, an issue of Canadian National Railway Company Dominion Guaranteed Bonds was made dated February 1, 1937, the proceeds therefrom being used to retire temporary loans made by the Government in 1936 for refunding. The issue comprised:—

\$15,500,000 $2\frac{1}{4}$ per cent seven-year bonds; sold at 98.75 per cent at an annual cost of 2.46 per cent.

\$20,000,000 3 per cent fifteen-year bonds; sold at 98.75 per cent at an annual cost of 3.11 per cent.

An issue of \$14,300,000 Canadian National Railways $2\frac{1}{2}$ per cent Equipment Trust Certificates, Series "O" 1937, was made to provide for the payment of part of the purchase price of new equipment costing over \$19,000,000. The certificates, which mature serially in ten annual instalments, were sold at 98.62 per cent, the annual cost to the railway being 2.82 per cent.

GENERAL

Employees, Wages, Etc.

The average number of employees in service during the year was 79,471, as compared with 78,836 in 1936. The total payroll expense for 1937 was \$117,804,769 as compared with \$111,221,129 in 1936, an increase of \$6,583,640 or 5.92 per cent.

Reference was made in last year's report to the establishment of Boards of Conciliation and Investigation to consider the employees' requests for the removal of the 10 per cent wage reduction on lines in Canada. On February 1, 1937, the Canadian Pacific and Canadian National Railways concurrently put into effect the first of the recommendations of the Board which dealt with the main dispute, providing for the reduction of the deduction from 10 per cent to 9 per cent. The representatives of the employees continued their demands for an agreement which would completely remove the wage deductions which had been in effect under various agreements from December 1, 1931. The general rate of deduction had been 15 per cent during 1934, and for the running trades and telegraphers the deduction was 20 per cent for six months in 1933. The general 15 per cent deduction, by agreement of November 3, 1934, became 12 per cent on January 1, 1935, and 10 per cent on May 1, 1935.

The managements of the two railways on March 29, 1937, reached an agreement with the employees which provided for gradual reduction of the general rate of wage deduction, the deduction becoming 8 per cent on April 1, 1937; 7 per cent on June 1; 6 per cent on August 1; 5 per cent on October 1; 4 per cent on December 1. The deduction became 2 per cent on February 1, 1938, and basic rates are to be restored on April 1, 1938. Employees subject to other rates of deduction were dealt with by arrangements reducing the deductions proportionately.

It may be noted that Class 1 roads of the United States with an increase in traffic of 2.8 per cent had an increase in expense of 6.4 per cent. The Canadian National had an increase in traffic of 6.3 per cent with an increase in expense of 5.4 per cent.

Net of Other Income and Profit and Loss Requirements

The accounts grouped together under this heading increased by a total of \$596,634 over 1936.

Taxes: Taxes amounted to \$6,697,242 compared with \$6,743,147 in 1936. These figures are exclusive of sales tax added to the cost of materials, which cost the railway in 1937 approximately \$4,200,000.

Hotels: The revenues from hotel operations continued to improve and resulted in an operating income for the year of \$200,087 after providing for taxes; an increase of \$40,070 over 1936.

Equipment Rentals: Equipment rentals increased \$555,000.

Northern Alberta Railways (jointly owned by Canadian National-Canadian Pacific): The operating revenues increased from \$2,029,371 to \$2,504,001, an increase of \$474,630. The net revenue increased from \$313,640 to \$756,579, an increase of \$442,939. After meeting interest requirements, the net loss for the year was \$912,233, an improvement over 1936 of \$345,239. The proportion of the net loss assumed by the Canadian National, namely one-half, was \$456,116, a decrease of \$172,619.

Interest Charges

Interest on funded debt held by the public

The total requirements for 1937 were \$48,888,546 as compared with \$49,184,623 for 1936, a decrease of \$296,077, the reduction being due to the refunding at lower rates of interest of issues maturing or called for redemption in 1936.

Interest on Government loans

Interest payments by the railway to the Government on loans for capital purposes and on temporary advances for refunding purposes amounted to \$1,744,550 as compared with \$527,682 in 1936. Prior to 1937 interest was not paid on Government loans for capital purposes. Following passage of The Canadian National Railways Capital Revision Act, 1937, the Government adopted the policy of collecting from the railway in cash the interest on all such loans made since January 1, 1932. As a result of this change of policy the railway was required to pay in cash for such interest accrued during 1937 the additional sum of \$1,684,753.

The total interest payments during the year were \$50,633,096 as compared with \$49,712,305 in 1936.

Cash Deficit

It will be noted from the foregoing that after payment of all operating expenses the net operating revenue of the railway for the year 1937 was \$17,607,750, an increase of \$2,474,951 over the previous year. After payment of taxes, rentals, discount and all other charges of every description, excepting only capital losses from line abandonments charged to Proprietor's Equity, the net income available for interest was \$8,287,228, an increase of \$1,878,317 over the previous year. After applying such net income against the interest on funded debt due to the public, and interest on Government loans as above referred to, there was a deficiency of \$42,345,867 as compared with \$43,303,393 in 1936. Had the change of policy referred to in the preceding item not taken place the cash deficit for 1937 would have been \$40,661,114.

CAPITAL EXPENDITURE ACCOUNT

The net expenditures on property investment account for the year 1937 amounted to \$20,874,664 made up as follows:—

Rolling stock purchased or built..	\$17,876,343
Rebuilding of freight and passenger equipment..	871,868
Air-conditioning passenger cars..	815,099
Senneterre-Rouyn branch line..	3,132,883
Vancouver Hotel..	214,388
Reconstruction of Saint John River Bridge, Fredericton, N.B... .	551,757
General Additions and Betterments, less Retirements (Net).. . .	4,949,086
Equipment Retirements—Credit..	7,536,760
	<hr/>
	\$20,874,664

Early in the year negotiations were entered into between a Committee of Chief Executive Officers representing the various railway labour organizations in the United States and a National Carriers Conference Committee representing the railways to consider demands on the part of the labour organizations for increased rates of pay. Negotiations having broken down the National Mediation Board offered its services, which were accepted, and as a result agreements were reached increasing the rates of employees, other than those engaged in engine and train service, by five cents per hour from August 1, 1937, and of employees engaged in engine and train service by five and one-half cents per hour from October 1, 1937. Canadian National United States lines became obligated for these increases together with all other United States railroads.

Canadian National Pension Plans

Under the various pension plans in effect on the system, 801 employees were pensioned during the year; pensioners numbering 394 died; pensioners numbering 649 who had served on Canadian National United States lines and had been pensioned under Canadian National pension plans were transferred during the year to the United States Railroad Retirement Board, reducing the system pension rolls at the time of transfer by approximately \$37,000 per month. The number on pension at December 31, 1937, under Canadian National pension plans totalled 6,287.

The CHAIRMAN: May I ask with regard to the number of pensioners mentioned, 6,287, if that covers the whole of your list?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: It covers every pensioner?

Mr. ARMSTRONG: All of the lines' pensioners, excluding those in the United States.

Mr. HOWDEN: That is Canadian pensioners only.

Mr. ARMSTRONG: Yes.

Mr. WALSH: Might I ask a question following up that question, Mr. Chairman

The CHAIRMAN: Yes.

Mr. WALSH: When you refer to pensioners do you also refer to those on a retiring allowance?

Mr. ARMSTRONG: Everything is included.

Mr. WALSH: This figure is inclusive of all who are receiving retirement allowances in any form whether pension, gratuity or anything else given by the Canadian National Railways because of services rendered?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: That is correct.

United States Railroad Retirement Plan

United States carriers and labour organizations reached an agreement with regard to a plan providing for annuities to employees upon retirement, to which effect was given by the enactment of the Railroad Retirement Act and the Carriers' Taxing Act, approved June 24, 1937, and June 29, 1937, respectively.

Under the new legislation, which repealed the former Taxing Act, and effective January 1, 1937, $2\frac{3}{4}\%$ was withheld from employees' wages and an equal amount is being paid by the railways. The tax rates are progressive, becoming fixed at $3\frac{3}{4}\%$ in 1949. The amount of the tax payable by the National System in 1937 was \$515,000.

United States Social Security Act

The National System in the United States is subject to Federal and State legislation dealing with unemployment insurance, also to Federal legislation dealing with old age pension benefits for employees other than those covered by the Railroad Retirement Plan. The cost to the system in 1937 under such legislation was \$459,000.

Trans-Canada Air Lines

In accordance with the authority contained in The Trans-Canada Air Lines Act, 1937, the Canadian National Railway Company subscribed for the entire capital stock of Trans-Canada Air Lines, consisting of fifty thousand shares of one hundred dollars per share. To December 31, 1937, calls aggregating seventeen per cent (\$850,000) of the stock have been met.

The affairs of Trans-Canada Air Lines are dealt with in a separate report.

Canadian National Railways—Capital Revision

At the last session of Parliament an Act was passed, being Chapter 22 of the Statutes of 1937, to provide for cancellation of capital stocks and certain indebtedness of the Canadian National Railway System to His Majesty and for adjustment of the accounts of the system. All things required by that Act to be done have been done. The previously outstanding capital stock of the Canadian National Railway Company (formerly Grand Trunk Railway Company of Canada) having a par value of \$180,424,327.70 has been surrendered by the Dominion and cancelled. \$82,000,600 of the outstanding capital stock of The Canadian Northern Railway Company has been surrendered by the Dominion and cancelled. The remainder of the outstanding stock of the Canadian Northern Company, amounting to \$18,000,000, has been transferred from the Dominion to the Canadian National Railway Company in exchange for one million no par value shares of the latter company being its entire issued share capital. The capital stock of the Canadian National Railways Securities Trust, consisting of five million shares of no par value, has been issued as consideration for the transfer to the Securities Trust of the indebtedness of the railway system to the Dominion as set out in Schedule A of the Act and the collateral securities held in respect thereof.

Adjustment of the balance sheet accounts of the system has been made as of January 1, 1937, and for purposes of record the 1936 published accounts as adjusted in conformity with the provisions of the Act are shown on page 29 of this report.

The adjustments authorized by the Act were entirely confined to the relationship between the Government and the railway, and did not deal in any way with the large funded debt of the system in the hands of the public.

Co-operation

During the year the directors reviewed the field of co-operation with the Canadian Pacific Railway and enlarged the scope of their studies. The co-operative activities related to matters previously studied but largely to the study of the abandonment of functionally duplicate lines of railway and the preparation of detailed agreements in regard to those lines where an abandonment had been recommended by the Joint Co-operative Committee and approved by the Joint Executive Committee. A total of 637 miles of line have been so approved for abandonment and with regard to most of these lines the preparation of detailed agreements is actively in hand. Agreements have been completed in the case of the Canadian National line between Middleton and Bridgetown and the Canadian Pacific line between Linwood and Listowel. In each of these cases the company whose line is abandoned is withdrawing all service from the territory. Applications to the Board of Railway Commissioners in these two cases are in hand. Studies of 1,550 miles of other functionally duplicate lines are still in progress.

The outstanding achievement in co-operation was the completion, after prolonged and difficult negotiations, of an arrangement for the closing of the Canadian Pacific Company's hotel in Vancouver and the joint operation of the new Canadian National hotel in that city. This arrangement will become effective when the Canadian National hotel has been completed and furnished, which it is expected will be in 1939. Such arrangement it is expected will reduce capital expenditure and produce an operating return for both companies.

Competition

One of the pressing problems in the transport situation is the placing of highway and inland water competition on a fair and equitable basis in relation to the railways. The directors are gratified to observe that the Parliament and Legislatures of Canada are giving consideration to this serious problem.

General Outlook

The immediate outlook for railway revenues is obscured by several factors, principally the marked recession in business in the United States, the disturbed international situation and the cumulative effect of a series of adverse crop conditions in portions of Western Canada. None of these factors is within the control of railway management, and so long as they continue to be adverse, railway revenues must be expected to remain at relatively low levels. Fundamentally, the National System is well equipped to take immediate advantage of any improvement in world conditions which will tend to stimulate the trade upon which the prosperity of the railway depends. Pending such developments the railway is continuing to render the transportation service which is necessary for the country in the most economical manner.

The effect of increased productivity in Canada upon the future revenues of the National System does not require to be stressed. An increase in productivity in any form of industry, including agriculture, at once reflects itself in the earnings of the system; and decreases in the volume of production affect seriously the gross revenues of the railway. The gross revenues of the Canadian National from the transportation of grain grown in Western Canada in the years 1925-1934 inclusive averaged \$22,000,000 per annum, the tons of grain carried averaging 5,000,000 during that ten-year period. The comparable figures for the past three years have been as follows:

Year	Tons Carried	Revenue
1935..	3,720,944	\$15,409,810
1936..	3,915,606	15,777,702
1937..	2,356,656	9,643,572

It will be noted that the gross revenues of the railway from the movement of Western Canada grain in 1937 were only 44 per cent of those obtained on the average during the ten-year period ending in 1934. The general prosperity of the country resulting from good crops contributes even more substantially to the earnings of the railway.

The loyal and efficient service of officers and employees, and the patronage extended to Canadian National Railways by the public during the year 1937 is acknowledged.

For the Board of Directors,

L. S. HUNGERFORD,

Chairman.

The CHAIRMAN: Are there any questions, gentlemen?

Mr. PARENT: I would like to have the salaries of each of the general officers of the C.N.R. I know you cannot give them right now but I would like to have a list of the officers mentioned in the first page of the report. I would also like to call the attention of the committee and of the representatives of the Canadian National Railway who are before us that out of 43 positions that are here indicated there are 30 held in the city of Montreal, and I am told that there is not one French speaking person in one of these official positions. That seems quite strange. I don't want to have any of these officers displaced but I would like in future if any promotions are made or if any vacancies occur on that board that more consideration should be given to the French population which now number 4,000,000 in Canada; and I believe on the Canadian National Railways that we should be entitled to have fair representation. There are places like in the legal department, in the colonization and agricultural department, in the general publicity department and in the medical department where certainly accommodation could be found for some outstanding French-Canadian people that could represent us on that board. I have made investigation of that and that applies as well to the other railway companies.

The CHAIRMAN: With regard to your first request, I think it has always been agreed for the last eleven years at least that this kind of information was not to be supplied.

Mr. PARENT: It is not?

The CHAIRMAN: I do not know if you can get it privately, if that would suit your purpose—providing it is not to be used outside.

Mr. PARENT: I do not insist, if it is against the interest of the railway that it should be known. I do not see why the salaries of employees of a railroad should not be known. Of course, if you should have any reasons for not giving this information about the railway I would drop my question, but I would like to know the explanation before withdrawing it.

Mr. HUNGERFORD: It has always been held before that it was not in the best interests of the country to publish this information because there is no similar information given in respect to other corporations.

Mr. PARENT: I understand, if you go to a board of directors meeting, if you are a shareholder you can ask what the salary of your president is. If I go to a C.P.R. meeting and I am a shareholder I am entitled to know how much my employees or directors are paid.

Mr. HUNGERFORD: It is a very broad question. We think it should not be given. Of course, this committee has the power to do what they like.

Hon. Mr. HOWE: If I might make a suggestion, I might say that the Governor-in-Council approves and fixes the salaries of the president and general manager, and the directors, and I think there is no difficulty at all about giving

you those salaries. They are a matter of public record. As far as the salaries of the internal organization go those are a matter for the board of directors to consider. After all, we are representing the shareholders here and I do not think the railroad would object to giving it to you privately. I do not think we should publish a list of the salaries when the competing railroad is not publishing similar information.

Mr. PARENT: I am not insisting that it be given publicly, but I would like to have it for my own information.

Hon. Mr. HOWE: I think you could easily get that from Mr. Hungerford privately, with the understanding it would be used privately.

Mr. PARENT: That is understood.

Hon. Mr. HOWE: Any other member might get it, I think, under the same condition. I think it is in the interest of the railway that it should not be made too generally public. This is one of those border-line questions. I do not think it is in the interest of the railway to put that in the daily press.

Mr. PARENT: It has been called to my attention; and the same thing applies also to the C.P.R. It is a strange thing that, out of four million people, we cannot find a fair representation on any of the big railways. We have Mr. Gagnon appointed by the government on the Board of Directors, it is true; but as far as the inside administration of both the railways of Canada are concerned, the fact that a man is a French Canadian seems to be a bar against him. I would like to find out if that is the fact. It seems absolutely extraordinary that on both the big railways of Canada, out of eighty key positions, we have absolutely no representation. I do not see that there is any monopoly of intelligence in one race more than in the other, especially in certain departments; I am sure that we can stand beside anyone.

Hon. Mr. HOWE: I think the railways almost never make appointments out of the blue to senior positions. It is a matter of working up from the ranks. I think there are French Canadians well on the way up. I know of several personally. But it so happened that we took this over from private control in 1917.

Mr. PARENT: Take, for instance, conditions in the Chateau Laurier where you have quite a good part of the population patronizing the hotel. I do not believe you have more than three or four people speaking French in the hotel. You can go there at night and you cannot even get information.

Mr. HUNGERFORD: We would be glad to give you information about the Chateau Laurier, if you wish it.

Mr. PARENT: I am just calling it to the attention of the committee. It is in the interests of the railroad.

Mr. WALSH: I personally would like to support the views of the minister in the fact that probably it might be in the public interest to know the salaries given to those who derive their appointments from the government; but with regard to those who derive their appointments from the Board of Directors, I do not think it is in the public interest to give the information, either privately or publicly, as to their remuneration or salaries. The Board of Directors are appointed for the purpose of administering that railroad and I feel that it is within their prerogative. I know that at a general meeting of the Canadian Pacific Railway, if I were a shareholder I would take the same point of view,—that it is not in the interest of the shareholders or of the public to have a list of names and salaries published, even privately to the shareholders. It is not in the interest of the railway and even more so is it not in the interest of this publicly-owned railway.

Mr. PARENT: Well, I do not agree with those remarks. I do not see what objection there is or in what way the management of the railway can be affected by knowing how much an employee is paid. Here in Canada we

publish every salary of every employee, from a stenographer to the Prime Minister of Canada; and there has never been put forth the contention that it is not in the interest of Canada that the salaries should be known. It is very interesting to know.

Mr. WALSH: I think probably it is in the interest of Canada to know of the salaries of those,—particularly the meager pittance of a good number of those. It is in the public interest to know if they are employed by the government. But we have turned this railway management over to a Board of Directors. They are to direct and administer this.

The CHAIRMAN: I remember that the same question was brought up sometime in 1931 and 1932, I think it was; and the main reason advanced then by the officers of the Canadian National that it was not advisable to publish such a list was that it might create among the employees a tremendous amount of jealousy by knowing the salary of each individual, and it was considered then that it was not in the public interest to publish such a list. I think, though, that the committee did authorize one or two special members of the committee that were insisting on that list, to obtain a private list, if I am not mistaken.

Mr. PARENT: On the other hand, if the salaries were published, it might be a stimulation for other people to work and try to get these positions, if the salaries are interesting.

Mr. HUNGERFORD: In 1932 there were three members of this committee appointed to look into the question of the salaries paid on the Canadian National Railway System. They did that. There was a survey of the whole thing at that particular time, and a very large readjustment. Since then there have been practically no change excepting those that were made necessary by promotions to fill vacancies. But this information is available to the directors, of course, in every detail.

The CHAIRMAN: Do you insist on getting that information, Mr. Parent?

Mr. PARENT: Sure, personally. I will keep it to myself, but I need it for the inquiry that I am making.

The CHAIRMAN: Well, gentlemen, what are your wishes?

Mr. YOUNG: Mr. Chairman, I am not at this moment prepared to ask that these salaries be made public. But I do not want to be silent if there is any suggestion that they cannot be obtained. I hold the view that this is a proper subject to investigate, if this committee so desires; but I am also prepared to co-operate with the management to the extent of not adding my voice at this moment to say that they should be given out. It may be that, after we learn more about the matter, in a judicious way of finding things out, there will be very obvious reasons why this thing should not be broadcast. I always feel that, in our country where we have two large systems—one system being publicly-owned and the other system being not publicly-owned—for some reason or other there might be some discrimination by disclosing information about one which was not disclosed about the other. That may be a potent reason why these things should not be made public. But all I desire to say at the moment is that if we do not lay down the rule that it cannot be supplied, I am content for the time being.

The CHAIRMAN: Then we shall let the matter stand for the present.

Mr. HOWDEN: Hear, hear.

Mr. WALSH: Do you want us to ask questions or could we reserve certain questions for the detailed information which follows the report?

The CHAIRMAN: Do you not think it would be better to wait until we are considering the details? That is what we did last year, with very good results.

Mr. WALSH: There are some questions I would like to submit without going to the trouble of reading them. They bear on the information that is given on page 5, under capital expenditure account and other details brought into that account. If the committee would allow me, I would just submit the questions and the chairman could give them to the officials.

The CHAIRMAN: You do not want them to be read into the record?

Mr. WALSH: They could be copied into the record rather than taking up the time of the committee to read them.

The CHAIRMAN: That is rather out of order.

Mr. WALSH: I can read them.

The CHAIRMAN: Will you please do that? I would prefer that.

Mr. WALSH: If it is the wish of the committee, I shall do that. I wish to ask the following questions:—

1. What tonnage of Canadian National Railways fuel coal has been delivered at Chipman, New Brunswick, for the years 1937 and 1938?

2. For how long a time are Canadian National Railways cars supplied to the Canadian Pacific Railways at that point for fuel coal without charge?

3. What demurrage or per diem has been received for Canadian National Railways cars supplied at that point?

4. What is the total cost per ton, all charges included, of fuel coal delivered at Chipman?

Then the next series of questions is as follows:—

1. What was the total cost of building the Canadian National Railways spur from Hardwood Ridge to North Minto, New Brunswick?

2. What is the cost of maintenance of this spur for the years 1936 and 1937?

3. What was the cost of supplying locomotive and van?

4. What demurrage or per diem is received on Canadian National cars supplied at North Minto, New Brunswick?

5. How long are these cars allowed to be kept without any charge?

6. What agreement was made for shipping commercial coal over this spur when it was built?

7. Has this agreement been lived up to? If not, for what reasons?

8. What tonnage of Canadian National Railways fuel coal has been moved over this spur?

9. What was the cost of this coal at Hardwood Ridge, all charges included?

Then the next series of questions is as follows:—

1. During the year 1936-1937 and January and February, 1938, what tonnage of fuel coal was supplied the Canadian National Railways, by months, from each of the following districts, (a) Maccan; (b) Springhill; (c) New Glasgow; (d) other Nova Scotia districts?

2. What price is paid for Nova Scotia coal f.o.b. cars Canadian National Railways tracks at above districts?

3. What is the cost per ton mile for hauling coal from Nova Scotia to New Brunswick points?

4. At what points in New Brunswick was the above mentioned Nova Scotia coal used, and what tonnage of each?

5. What is the policy of the Canadian National Railways in buying fuel coal?

6. Is competition developed between operators and districts, and all compelled to accept the lowest price offered?

7. Is any consideration given to the possibility of paying a proper standard of wages?

8. How much Canadian National Railways fuel coal is purchased in Nova Scotia for use in, (a) New Brunswick; (b) Nova Scotia; (c) Quebec; (d) Ontario?

9. How much New Brunswick coal is purchased for use in each of the above provinces?

If there are any maritime members here, I apologize for asking these questions, coming as I do from the province of Quebec; but this is information that I desire, and it is desired by others interested in that particular phase of our national railways.

The CHAIRMAN: It is quite apparent that this is the result of your wonderful vacation in the maritimes last year, Mr. Walsh.

Mr. WALSH: That is quite correct.

The CHAIRMAN: One part of the question is rather large, especially 7, 8 and 9 of the last series. I am afraid it will take some time for the officials to collect this information, even if they can supply it. We will leave the questions on the order paper and let the officials peruse your questions and see what parts can be answered. Have you another copy, Mr. Walsh?

Mr. WALSH: Yes.

The CHAIRMAN: Would you give it to the clerk, please. Are there any other questions, gentlemen? If not, shall we go on to the consolidated balance sheet? Mr. Armstrong, will you take the chair again?

Mr. ARMSTRONG: On the asset side, investment in road and equipment, \$1,849,929,232.68; improvements on leased railway property, \$4,371,294.37; miscellaneous physical property, \$60,638,487.47; a total investment of \$1,914,939,014.52. Sinking funds: System securities at par, \$286,023.70—

Mr. WALSH: Mr. Chairman, is it necessary to read all this when we have it before us?

The CHAIRMAN: I am entirely in the hands of the committee. You have all read the balance sheet. If there is no particular need, we can dispense with that.

Mr. MCKINNON: I do not think it is necessary.

The CHAIRMAN: Then, let us go on to considering the profit and loss account. The same thing applies to that.

Mr. WALSH: Can we ask some questions in connection with the consolidated balance sheet?

The CHAIRMAN: Yes.

Mr. WALSH: On page 11, 5,000,000 shares of no par value capital stock issued by Securities Trust, \$269,325,705.67. That was the amount that was authorized last year, less a certain figure—less, I think, \$711,732.21. Is that correct?

Mr. COOPER: Yes.

Mr. WALSH: In other words, \$269,325,705.67 should be increased by \$711,732.21. The point I am trying to make is this: That \$711,000 represents a capital loss. If you turn to page 29 of this report, it will give further details in connection with that or further reference to it. The proprietor's equity was \$270,000,000 and this year it is down to \$269,000,000. If we continue to charge against that the \$711,000 this year—it is quite obvious that if we are going to have this capital loss each year—you are going to gradually approach the point where the proprietor's equity is nil; in fact, it is quite conceivable, according to geometrical principles, to carry it to an absurdity where the proprietor's equity would be less than nil if this principle is going to be followed. I would like to know from the president or the Board of Directors on what

principle they are working and where it is bound to lead us, as far as the proprietor's equity is concerned. If this continues, the Dominion Government's equity will be nil or less. Is this \$711,000 going to be voted in the same way as the cash deficits each year? If not, why? In what way will this be shown in the public accounts of Canada? We have a cash deficit, as you know, referred to at the beginning of the report, of \$42,345,867.99. Then we have \$711,732.21 charged against proprietor's equity, reducing that from \$270,000,000 to \$269,000,000. In parliament we vote \$42,000,000; are we going to do the same with the \$711,000; or what is the intention of the board of directors with regard to that amount?

Hon. Mr. HOWE: If you have before you the balance sheet of the Securities Trust, you will find that that arose entirely out of the tearing up of some one hundred and forty miles of railway. The asset has disappeared. It is the practice of all railways to charge capital abandonments to the balance sheet rather than to profit and loss. In any railroad statement you will find the write-off on capital where lines have been torn up in that way, and the same way if lines have been added. It shows as a change in capitalization.

Mr. WALSH: But can you not conceive of a point where the amount of \$270,000,000 is going to practically disappear?

Hon. Mr. HOWE: Absolutely, if you tear up that many lines of railway. If you have no railway, you have no proprietor's equity.

Mr. WALSH: Then this \$711,000 is capital which you are eliminating?

Hon. Mr. HOWE: It has disappeared, yes.

Mr. WALSH: Most likely it is represented by bonds that are in the hands of the public and on which the people of Canada through the government are paying interest. Now the proprietor's equity is cancelling this \$711,000. When that peculiar system was set up, was it the intention to charge these capital losses against the proprietor's equity, or to charge them against the current account, in view of the fact that you are continuing to pay the bonded indebtedness? The bonded indebtedness is still there, and we are continuing to pay that interest. It does not seem to be fair simply to say, "Well, we have torn up that line of railway, let us forget about it." We cannot forget about it because annually we are paying a certain amount of interest on the funded debt represented by the lines we have torn up.

Hon. Mr. HOWE: What would happen if you voted the money and gave it to the C.N.R.? Your proprietor's equity would be the same, the working capital would be up and your investment account down. What would be the benefit?

Mr. WALSH: You have a cash deficit of \$42,000,000 odd this year, and if you add to that the capital loss of \$711,000 and had the total voted, you are going to vote \$42,000,000 and then the proprietor's equity remains as it is, representative of the bonded indebtedness of the railway on which you are paying interest. At the present time, this will not show in that respect at all.

Hon. Mr. HOWE: No railway does that sort of thing. They charge these things direct to profit and loss. We took those lines up because we thought it was better for the railway to have them up than down, and therefore we depleted the equity the government had in those rails.

Mr. WALSH: That is looking at it from the material point of view. The bonds have not been eliminated.

Hon. Mr. HOWE: You cannot eliminate bonds. We believe it is in the public interest, even though we cannot eliminate the bonds, to sometimes eliminate the track.

Mr. WALSH: I cannot see why you should write it off because, after all, proprietor's equity is presumed to represent the bonded indebtedness.

Hon. Mr. HOWE: No, no.

Mr. SMART: It is a physical asset.

Hon. Mr. HOWE: It is the equity the government has in the property.

Mr. WALSH: Your equity is still there if you have bonds out against that particular line. It is going to lead to this: you have a certain deficit reported this year of \$42,000,000. You are going to endeavour to charge against the proprietor's equity each year as much as you possibly can in order to keep the actual deficit reported down to the minimum.

Hon. Mr. HOWE: Why do you say that?

Mr. WALSH: Because I feel that this \$711,000 is something that is lost to the Canadian National. It is being lost in a material sense; it is not being lost in the sense that the bonded indebtedness is still represented there and is paid for annually. I feel that this \$711,000 should be added to the \$42,000,000, making a total of \$43,000,000 odd, and that that amount should be voted by parliament to the Canadian National Railways and accounted for as part of the deficit of the railway for this current year. That is my own opinion. I do not know whether it falls short of proper accounting or not; I just look at it from an ordinary layman's point of view.

Hon. Mr. HOWE: It would be different accounting than I have ever seen on any railroad. You can show me any railroad statement you like and I will show you a difference in the profit and loss account where something has been added or subtracted through a change in the capital position. It is in our profit and loss account the same way, page 12. The railroad does not need the money; why vote them the money? It is simply a reduction in capital.

The CHAIRMAN: This item re-appears again, and we will be considering the Securities Trust of which Dr. Clark is the chairman. I think it would be better to postpone your question, Mr. Walsh.

Mr. WALSH: In last year's statement, December 31, 1936, on page 9, the first item, under Consolidated Balance Sheet, was stocks. Then you had government grants in aid of construction, \$15,000,000.

The CHAIRMAN: From what page are you reading?

Mr. WALSH: Page 9 of last year's report, and I am comparing it with this year's report on page 11. There is an item of government grants in aid of construction, \$15,142,633.32. I was trying to trace that through to find out where it is. It was there last year, but it is not in the consolidated balance sheet this year. Is there any particular reason for that or where has it disappeared?

Hon. Mr. HOWE: You will find that in the Capital Revision Act of 1937.

Mr. SMART: It is one of the items that were written off at that time.

Mr. WALSH: The \$15,000,00 was money that was written off?

Hon. Mr. HOWE: That is right.

Mr. WALSH: Last year there was an item "By provinces of Canada prior to Confederation" \$3,000,000. Where has that gone?

Hon. Mr. HOWE: You will find that on page 14.

Mr. SMART: That is in a little booklet, the Capital Revision Act.

Hon. Mr. HOWE: Those are the Grand Trunk debentures issued prior to Confederation. I think if you will study the Capital Revision Act you will find that.

Mr. YOUNG: I do not think we have copies of that Act.

Hon. Mr. HOWE: You have not got them here, but we studied that very thoroughly last year.

Mr. WALSH: I notice, Mr. Chairman, on page 30 of the Capital Revision Act there is an amount of \$15,142,633.34, but the other item that was there in the consolidated account, \$3,013,000, does not appear on page 30. At least, if it does appear, it is obscured and I cannot find it.

Hon. Mr. HOWE: What was the item?

Mr. WALSH: "By provinces of Canada prior to Confederation" \$3,013,-748.90. Adding that to the \$15,000,000 you have a total of \$18,156,000 last year, and I notice on page 30, Chapter 22, of this booklet entitled The Capital Revision Act, that you have \$15,142,683.34 accounted for.

Hon. Mr. HOWE: Can you explain that, Mr. Cooper? I think that \$3,000,000 was outside the Act, was it not?

Mr. COOPER: The other smaller items, amounting to three millions of dollars, representing provincial, municipal, United States state and federal subsidies, amounting in all to \$1,628,000, were written off to the credit of the investment account.

Mr. WALSH: The \$3,000,000 has been split up?

Mr. COOPER: Yes.

Mr. WALSH: And it is to be found on what page?

Mr. COOPER: Page 18 shows the changes in the property investment account during the year. You will note towards the foot of the statement that certain book-keeping transfers were made affecting proprietor's equity and grants in aid of construction, \$2,342,289.93. In that is \$1,600,000 of these provincial, municipal and United States subsidies.

Mr. WALSH: Yes, that is part of it.

Mr. COOPER: The other part represents a subsidy given by the Dominion of Canada towards the maintenance of the Prince Rupert dry dock, and we eliminated that from the balance sheet by a credit to profit and loss. That is included on page 12 of the statement as a miscellaneous credit included in the amount of \$1,400,000, page 12.

Mr. WALSH: Under miscellaneous credits?

Mr. COOPER: Yes, sir.

Mr. WALSH: Who authorized that, the Dominion?

Mr. COOPER: No.

Mr. WALSH: The Board of Railway Commissioners?

Mr. COOPER: I initiated it. It was discussed with the department officers, and it was discussed with the government auditors, and we agreed between us that that was the proper thing to do.

Mr. WALSH: Then the railway is interested in the Prince Rupert Dry Dock?

Mr. COOPER: Yes, sir; it belongs to us.

Mr. WALSH: And operated by the railway?

Mr. COOPER: It is operated by the railway and the cost of operation included in our statement. We receive from the Dominion each year about \$76,000 as a subsidy. It goes towards the cost of keeping the dry dock in A-1 condition.

Mr. WALSH: Is that a recognized annual subsidy or is it a fluctuating amount?

Mr. COOPER: No; it goes on for twenty-five years, dating back from about 1918.

Hon. Mr. HOWE: It is under The Dry Docks Subsidies Act, the Department of Public Works.

Mr. WALSH: Is the revenue from that dry dock sufficient to carry the expense of it, or is that helping to create part of this deficit?

Mr. COOPER: No; I do not think that the dry dock, apart from the subsidy, would carry itself, but, with the subsidy, it will.

Mr. WALSH: The subsidy, then, more or less represents the actual deficit that might be involved if the government did not make that particular grant?

Mr. COOPER: No, I do not think so. The subsidy is a payment by the government because, under The Subsidies Act, certain obligations were placed on the company as to the standard of maintenance to which the dry dock must be maintained. In view of the obligation under the Act we are in receipt of this annual subsidy of \$76,000. In the year 1937 we treated that as income to the dry dock together with any income from repairs to vessels which go to the dry dock for that purpose, and against the accounts of the dry dock we charge the cost of maintenance and repairs to vessels, and all other expenses. The net result then goes into our income statement.

Mr. WALSH: Would it be out of order, Mr. Chairman, if I asked to have a statement filed and recorded in our minutes showing the actual receipts and disbursements in connection with this dry dock at Prince Rupert?

Mr. COOPER: There is no difficulty about that. You mean for the year 1937?

Mr. WALSH: Yes.

Mr. COOPER: Yes, sir, we can do that.

The CHAIRMAN: Would it be satisfactory to give you the memorandum for your personal information?

Mr. WALSH: I would include it in the minutes. I believe it is of general interest to all.

Hon. Mr. STEWART: Is not the position this: we have an Act of Parliament providing for subsidies to dry docks, and they are of different classes. The subsidy varies according to the class of dry dock and the requirements in connection with it.

Now, I assume that in the beginning when this subsidy was granted, as the official has stated, I believe in the year 1911—you say that is when it began?

Mr. COOPER: That was the date of the agreement, November 30, 1911.

Hon. Mr. STEWART: The Act has been in force for a longer time than that, as I recall it, and it is administered by the Department of Public Works. Each year the subsidy is voted. I do not recall to whom the subsidy was originally granted.

Mr. COOPER: The Grand Trunk Pacific Railway Company.

Hon. Mr. STEWART: The Grand Trunk Pacific Railway Company established the dry dock and qualified for the subsidy in the same way that any private company or any company may establish a dry dock and qualify for a subsidy.

Mr. COOPER: Quite so.

Hon. Mr. STEWART: It is part of their revenue. That is as I understand the situation here. Each year they operate the dry dock. Taking that subsidy into consideration, is there a surplus or is there still a deficit?

Mr. COOPER: If you will give me a minute I shall find the results for 1937 and give them to you now. In 1937 the operating revenues of the dry dock amounted to \$98,000, the expenses were \$142,000. After taxes we had a deficit of \$50,000; but after applying the subsidy of \$76,000 and an amount of interest income of \$1,500, we had a surplus of \$28,000. That is, after applying the credit of \$76,000 we had a profit of \$28,000 which is transferred to the system income.

Hon. Mr. STEWART: Turned around the other way it would be a deficit. Without the subsidy you had a loss.

Mr. COOPER: Quite so.

Hon. Mr. HOWE: Every dry dock in Canada has had a subsidy. There are two others on the Great Lakes.

Hon. Mr. STEWART: That is what I want to point out. There are several dry docks and they all get a subsidy.

The CHAIRMAN: This subsidy is paid every year and is included in the estimates of the Department of Public Works, and is transferred over to the Canadian National Railways.

Mr. COOPER: Yes. I think it is fair to point out that under the Act we are obligated to maintain the dry dock in a very high state of condition, probably in a higher state of condition than we would under ordinary circumstances.

The CHAIRMAN: After this explanation do you still want your report?

Mr. WALSH: No. I think he has given exactly what I was looking for and I appreciate getting that information. I had intended, Mr. Chairman, with your permission, before I discussed any of the items to make this remark. Mr. Cooper is here this year the first time in his official capacity succeeding Mr. McLaren after Mr. McLaren's retirement. I do want to tell the president and the board of directors how much I personally appreciate the appointment of Mr. Cooper to the position he now holds.

The CHAIRMAN: Carried.

Mr. WALSH: I consider Mr. Cooper one of the outstanding railway accountants. I do not say this just to flatter Mr. Cooper; I say it rather to flatter the president and the board of directors of the Canadian National Railways. Mr. Cooper stands very high in the estimate of anyone interested in railway accounting and I was very glad to see the appointment go the way it did and I am glad to see Mr. Cooper here to-day answering the questions.

Mr. HOWDEN: Is this a very busy dock at Prince Rupert; is it a very necessary dock?

Mr. COOPER: The total revenue last year was \$98,000.

Hon. Mr. HOWE: It took in \$89,000 in ship repairs, and \$9,000 for other work.

The CHAIRMAN: Are there any other questions?

Mr. WALSH: I take it for granted it is not impossible to get \$711,000 filed in parliament the same way as \$42,000,000.

The CHAIRMAN: You will have a further opportunity when Dr. Clark is here to explain his chairmanship.

Mr. WALSH: Just a question in passing. This report of the Canadian National Railways Securities Trust containing the \$711,000 deficit is given in a blue book. Is this a blue book? Is there any significance in the fact that this is a blue book, the colour usually adopted by the government, even a Liberal government, in issuing departmental information, or does it just happen to be a coincidence?

The CHAIRMAN: It is because it is departmental information that it is a blue book.

Mr. WALSH: I was wondering. Section 22 of Bill No. 12 as passed last year says:—

The Securities Trust is hereby declared for the purpose of this Act to be a company comprised in the National Railways.

Mr. SMART: That is for the purpose of consolidating the balance sheet. That report is a government report. You see, the Securities Trust consists of certain deputy ministers and certain representatives of the railway company. It is

administered here in Ottawa and Mr. Clark is the chairman. Now, all other government department documents are published in a blue book, and we are simply following it out, that is all.

Mr. WALSH: This is a government statement?

Mr. SMART: A government publication.

Mr. WALSH: The Canadian National Railways as such has little knowledge of what is contained in this booklet except in so far as they supplied certain information. It was not my understanding when we were discussing this Securities Trust last year that it was to be a department of government. I cannot recall that point having been emphasized last year. Personally I understood that it was to be part of the Canadian National Railways, and was to be reported as such.

Mr. SMART: No; the Act calls for a report of this securities trust to be prepared and tabled at the same time as the annual report of the Canadian National Railways.

The CHAIRMAN: As a matter of fact, it was done at your request.

Mr. WALSH: No. Do not give me any credit for doing anything of that nature. I see here the Act says:—

The Securities Trust is hereby declared for the purpose of this Act to be comprised in the Canadian National.

When I saw that clause last year my understanding was that it was in reality merely a subsidiary of the Canadian National Railways.

Hon. Mr. HOWE: No, that was done simply for the purpose of consolidating the balance sheet of the railway.

The CHAIRMAN: It is more in the Department of Finance than anywhere else. Mr. Clark is the deputy minister of finance.

Mr. SMART: Mr. Clark and myself and the deputy minister of justice, together with two representatives of the railway company comprise the board.

Mr. McLARTY: Section 12 of the Act covers it.

Mr. WALSH: I was reading Section 22.

The CHAIRMAN: Are there any further questions?

Mr. HEAPS: Carried.

The CHAIRMAN: Do you want to consider the consolidated profit and loss account? Are there any questions?

Mr. VIEN: Mr. Chairman, I understand we shall have the privilege of coming back to the accounts. They are not carried definitely?

The CHAIRMAN: No. We are going to examine every one of them in detail at another time. At that time you can ask any questions you like.

Mr. HOWDEN: Under the heading of credits there is an item of a donation of \$108,000. I should like to know the significance in that.

The CHAIRMAN: What page?

Mr. HOWDEN: Page 12.

The CHAIRMAN: Can you explain that, Mr. Cooper?

Mr. COOPER: Yes.

Hon. Mr. STEWART: Before you pass page 11 will you permit me to say this. There is a long term funded debt unmatured of \$1,221,997,398.79. Is there any prospect of refunding that at a lower rate, or of anything being done in that direction?

Hon. Mr. HOWE: Mr. Chairman, I have looked into that very carefully. A study was made by my own department and by the Bank of Canada. A considerable part of that debt is not guaranteed by the government, but it

represents a first mortgage on some important parts of the system, and until the bonds come due we see no practical way of refunding it. Of course, it is being refunded as the bonds come due, but there is no possibility of a compulsory refunding as far as we can see.

Hon. Mr. STEWART: I assume, Mr. Chairman, that maturities take place from time to time at different dates?

Hon. Mr. HOWE: That is true.

Hon. Mr. STEWART: Are any of the maturities in sight or are they still a long way off?

Hon. Mr. HOWE: There is a comparatively small maturity this year of \$69,000,000. I think it comes due within the next twelve months.

Hon. Mr. STEWART: This year?

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: Is it the opinion of the minister that something may be accomplished in the direction of refunding that loan at a lower rate?

Hon. Mr. HOWE: That will be refunded at a lower rate.

Hon. Mr. STEWART: When it comes due.

Hon. Mr. HOWE: Yes. There will be a refunding bill brought to parliament this year with respect to the \$69,000,000.

Hon. Mr. STEWART: Maturing this year?

Hon. Mr. HOWE: Yes, and probably some additional provisions in case we are able to work out other refundings.

Hon. Mr. STEWART: General power and authority to refund where it is possible to do so at a lower rate?

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: When does the next maturity come due?

Hon. Mr. HOWE: I think it is given on page 20.

Hon. Mr. STEWART: Yes, it is. I am sorry.

Mr. YOUNG: I take it that this item that Mr. Stewart has been discussing will be discussed in detail when we arrive at page 19 because I want to say something about that myself?

The CHAIRMAN: Quite so.

Mr. YOUNG: We are not passing it now.

The CHAIRMAN: No.

Mr. HOWDEN: I am still curious about the donations, Mr. Chairman. That is an added heading.

Mr. COOPER: The situation is something like this. If an industry pays for the cost of a siding which is constructed on railway property, the ownership is deemed to rest with the railway. We set up the construction cost in our investment account with a corresponding credit to donations. That is a book-keeping method whereby the total investment in railway property is set up on the books. Inasmuch as the railway does not itself assume the cost we necessarily must treat the offset as a donation.

Mr. HOWDEN: That is to say, the parties request and pay for the siding.

Mr. COOPER: If they pay for it, yes.

Mr. HUNGERFORD: Or part of it.

Mr. HOWDEN: I see.

Mr. COOPER: It is general railway accounting practice, covered by the accounting regulations of the Interstate Commerce Commission.

Hon. Mr. STEWART: There is one item on page 11, tax liabilities, \$1,811,-257.52; would you explain that item please?

Mr. COOPER: They are taxes which have been accrued in advance of payment. For instance, we may have a tax due in July, 1938, payable at that time. Now, six months of that accrued during the year 1937. We charge that into 1937 income under the heading of tax accruals and we set up a liability under the heading here.

Hon. Mr. STEWART: I thought taxes ran with the calendar year.

Mr. COOPER: They vary, particularly in the United States. You will find the taxes are not usually paid in advance in the United States.

Hon. Mr. STEWART: They run for the calendar year, municipal taxes and the like.

Mr. COOPER: Municipal taxes, yes.

Hon. Mr. STEWART: But, of course, these would not all be municipal or provincial taxes.

Mr. COOPER: No. There is the United States federal, state, municipal—every kind of tax is in there.

Hon. Mr. STEWART: Yes, this covers them all.

Mr. COOPER: It is the amount which was accrued up to the end of December, 1937.

Hon. Mr. STEWART: Yes.

The CHAIRMAN: Are there any other questions?

Mr. WALSH: On page 12, Mr. Chairman—

The CHAIRMAN: Yes.

Mr. WALSH: There is indicated there a debit balance of \$42,345,867.99. You will recall that there was provided in last year's budget, or estimates, or amount to the railways, a presumed deficit of \$35,000,000.

Hon. Mr. HOWE: \$35,000,000

Mr. WALSH: \$35,000,000; that was what was budgetted for presumably by the railway. They budgetted on a certain revenue plus a contribution from the government of \$35,000,000. This year they actually show a deficit of \$42,345,867.99, instead of \$35,000,000. Now, the question I want to ask is this: I presume that the Canadian National Railway like all other railways has a budget—is that correct?

Mr. HUNGERFORD: Yes.

Mr. WALSH: When we get a budget drawn up with a presumed deficit of \$35,000,000 we take it for granted that that is a figure which has been arrived at after a certain amount of study by that budget committee, and they arrive at a certain figure to cover the year's operations plus \$35,000,000 of a grant by the government, and then they come before our committee of parliament not only to ask for the \$35,000,000, but \$7,000,000 more than they actually allowed for last year.

Now, in ordinary business we try to budget and we try to watch our expenditures pretty carefully at the beginning of the year to see that we are living within our budget. I notice by going back over the accounts of the Canadian National Railway to the year 1932, when the present set-up came into effect, that there has only been one year that they did not come back with their budget very much over-expended. I look at the year 1932. They put up a budget provision that year of \$49,000,000 and then they came before the committee with an actual cash deficit of \$60,000,000; an over-expenditure of \$11,000,000. In 1933 their budget provision was \$54,000,000, the cash deficit \$58,000,000; an over-expenditure of \$4,000,000. In 1934 they did not over-expend, they showed a surplus. They came back that year with a surplus of \$432,000. In 1935 they came back with an over-expenditure of \$3,000,000. In 1936 they over-expended by \$3,000,000, and in 1937 (this year) they over-

expend by an amount of \$7,000,000. Now, I can't see any reason for the Canadian National Railway budgeting for a certain amount and then over-expend. We can't do that and don't do it in private business, nor do we do it in our individual lives; we can't afford to do it. I know from my own experience in my own business I have to budget to a central finance committee and I was going to say God help me if I go back to that central finance committee at the end of the year and say well, I am sorry, I misjudged and you will have to give me another \$2,000 in order to meet a deficit—

Mr. HEAPS: How can you compare a business such as the one you refer to with a railway such as the Canadian National? How could they possibly have foreseen that there was going to be the drought condition there was in western Canada with the whole crop practically ruined? If you can forecast accurately what the weather conditions are going to be for a period of twelve months ahead, well then the budget committee of the railway would certainly be glad to have your advice.

Mr. WALSH: It is all right for the honourable member to suggest forecasting weather conditions twelve months ahead—

Mr. HEAPS: It is all right for you to suggest that the railway should keep within their budget estimate but—

Mr. WALSH: They asked for \$35,000,000 in their budget when apparently they needed over \$40,000,000. If the budget is not for the purpose of controlling expenditure then of what use is it, of what use is a budget committee otherwise; why have a budget at all if you are going to over-expend every year? I would not mind if there was a mistake one year. Unforeseen circumstances might explain that. But when it is every year anything from \$11,000,000 down to \$3,000,000 of an over-expenditure in relation to the budget that is a different matter.

Now, it seems to me that the budget committee of the Canadian National Railways this year are drawing up a budget and they are going to ask the Minister of Finance to vote \$40,000,000 or \$50,000,000. Now, I think this committee should insist on the Canadian National Railway living within the amount that is granted to them in their bill.

Mr. HEAPS: That is impossible.

Mr. WALSH: I do not want to see them come back next year announcing that they have over-spent to the extent of \$7,000,000. That is not fair to parliament. That is not fair to the people of this country—to ask for an additional amount over and above that which was granted the preceding year. In other words, I want to see a curtailment of expenditure in the Canadian National Railway expense position, to have them live within the budget as announced. Now, I do not know what the announcement is going to be this year but I can judge by figures I have taken out of the *Gazette*. I notice here the earnings for January and February of 1938 show that the Canadian National are down \$3,413,089 as compared with last year. We have no figures for March as yet. Personally I am going to ask that the actual figures for the first three months of the year be given. I am also going to ask for the revenue and expenditure account as for the month of April. Now, I figure that judging from these figures the Minister of Finance will have to ask for a sum equivalent to \$50,000,000 in place of the \$35,000,000 this year if the Canadian National are desirous of balancing their budget next year. Now, I am waiting to see; what is the Minister of Finance going to do? Is he going to come out and ask us for \$50,000,000, or for the \$35,000,000 with the operating revenue which he anticipates with the thought that the budget of the Dominion of Canada will be balanced on the strength of that, and is he then going to have the Canadian National Railways come through and disappoint him, disappoint the parliament of Canada, dis-

appoint the people of Canada, by announcing that unforeseen circumstances have given rise to a \$50,000,000 deficit rather than the amount suggested by the Minister of Finance in his budget. Now, I want to avoid that and I want the budget committee of the Canadian National Railways to consider their budget carefully and to give a figure to the Minister of Finance and then know that having given him that figure they are going to live within that budget and not go beyond it. I am stressing that point as much as I can possibly stress it, and then next year we will not be faced with this, and we won't have any member of this committee saying, well they did not know there was going to be a terrific drought in the west, or a lack of traffic, or something of that nature which will prevent them from living within the bounds of their budget.

Hon. Mr. HOWE: Perhaps I can answer that, because I brought down the budget last year. Naturally one cannot make up a budget of this kind without some assumptions with respect to volume of traffic. Traffic was an important factor in our assumptions for last year's budget, and in the making of it we proceeded on the assumption that there would be at least an average crop in western Canada. We thought it would be at least as good as the ten year average. Now, you read somewhere figures there showing deficits in every year but one, and the one year in which a deficit was not shown was 1934 which was immediately following a big crop year when we had an average crop—that was the crop of 1933, the only fairly average crop we have had since 1929. The budget worked out perfectly correctly for that year. Now, the budget would have been accurate for the year under consideration if we had had an average crop last year. Had we had that average crop we would not have exceeded our budget.

Mr. WALSH: How can the minister assume that we are going to have a good average crop for this year?

Hon. Mr. HOWE: Well, you must assume something.

Mr. WALSH: I can understand this year, judging by the reports that have come from the west; I can understand your assuming that we are going to get a more average crop out there this year. That would be a perfectly logical conclusion this year, but last year I do not think there was anything to justify any rosey hopes for the west.

Hon. Mr. HOWE: In January of last year when this budget was made up conditions did not look so bad, or very much different from the way they look to-day.

Mr. YOUNG: This particular item goes a long way to show how very difficult it is, first to estimate traffic; and secondly it goes a long distance to show the value of western Canada to the prosperity of the Canadian National Railway and to the whole of Canada in ordinary times—

The CHAIRMAN: Hear, hear.

Mr. YOUNG: Just as the minister has explained, in a year when there is a crop it not only helps the Canadian National Railways but it helps traffic generally throughout Canada. I think Mr. Hungerford would bear me out in that statement.

Mr. HUNGERFORD: Yes, sir.

Mr. YOUNG: I don't know how any member of this committee can expect the management of this road or of any other road to anticipate just what kind of weather conditions we are going to have in this country. Personally I doubt very much whether any member of the present management of this road or any other road can do it. Now the other suggestion made by Mr. Walsh was this, that we anticipate that conditions will be very bad and ask parliament to vote an amount in excess of the amount there last year; in other words, let us be sure there will be enough voted so that there will be no deficit. Well,

Mr. Chairman, to me that would be perhaps just the other way of going about things. We would be telling the road that it is very necessary to be careful, but in any event we are going to give you an amount of money sufficient that you will not need to worry. So far as I am concerned, as a member of this committee, I am opposed to that. I quite appreciate that the Canadian National Railways, like a good many other people in this country, are having to operate under very difficult conditions. In preparing their budget this committee has to take all important factors into consideration. Now, I am pleased to say to Mr. Walsh and to the rest of the committee that after having viewed conditions out on those great plains of ours, we have some moisture there this year, and from what I have seen I would think that we are going to have a good crop this year—reasonably good. I think we can count on an average crop and that should bring some hope into this committee to-day. But, at the same time, if a year from now the budget, because of conditions at present unforeseen, does not turn out to be as we anticipate, I do not think that the management then should be held accountable for such conditions over which they had no control. I think we have done the best we could in the circumstances, last year or any other year, having regard to the conditions which prevailed, and I would be sorry that any statement should be spread through the press or otherwise that there has been some very bad budgeting going on, where in my own judgment at least nothing of the kind has occurred.

Mr. HEAPS: I think we will all agree it is much easier to possess hindsight than fore-sight. I think last year when the amount was estimated that we would have a deficit of \$35,000,000 to vote in this committee everyone agreed that that would be about the approximate amount. I think that even Mr. Walsh himself agreed to that.

Mr. WALSH: No.

Mr. HEAPS: He did not at that time express any particular objection to the amount going into the estimates of the C.N.R. accounts. I just happen to have had brought to my notice some of the reports submitted to this committee by Mr. Hungerford and if Mr. Walsh will kindly look at page 8 of the report he will find some rather interesting figures which might to some extent explain the reason why we have this extra amount to vote in these estimates. You will find on page 8 that in the year 1935 we carried 3,720,944 tons of freight with a revenue of over \$15,000,000; in 1936 we carried 3,915,606 tons of freight with a revenue of \$15,777,702; and in 1937, the year of the bad crop which affected the volume of traffic of the Canadian National Railways and the Canadian Pacific Railway to just the same extent I believe, our traffic of that year coming for grain and so on in western Canada was 2,356,656 tons and our revenue was \$9,643,572; a drop of receipts under that one particular item of over \$6,000,000.

I think that the C.N.R. Committee which was doing the budgeting or estimating for the year 1937, took the approximate average of the previous years, and I do not think they could have done very much more than that; and had that crop been of the average of the previous years, with the increase of over \$6,000,000, I do not think the \$35,000,000 deficit would have been very far out. In fact, I think that every member of the committee is anxious to keep the deficit of the Canadian National Railways down to an actual minimum. I know I am. In fact, I would like to see it wiped out, if I possibly could; and if there are any ways or means by which the Canadian National officials could help us to wipe it out, I think they would have the wholehearted support of the members of this committee. There is one point I would like to ask a question about, if I may. Perhaps Mr. Cooper or some other official could give me the amount of interest that the Canadian National Railways has to meet each year?

Mr. COOPER: In 1937? You are speaking of interest due the government?

Mr. HEAPS: No, interest on the public indebtedness.

Mr. COOPER: Yes. In 1937, it was \$48,888,000.

Mr. HEAPS: The reason I am asking that question is that I noticed, just in casually looking at the amount outstanding of over one billion dollars to the public, that quite a large amount—in fact, I think the largest amount, outside of the provincial governments—pay high interest charges, some being five and five and a half per cent.

Mr. COOPER: The average rate is four per cent.

Mr. HEAPS: How is the average worked out? Is it a weighted index or is it that amount or is it just a rough figure?

Mr. COOPER: No, it is an actual figure. If you take the amount of principle outstanding at December, and the rate of interest, extend the interest and divide the aggregate outstanding principle into the aggregate interest charges, you get an average of 4 per cent.

Mr. HEAPS: I am looking at the information contained on page 19, and I notice some of the largest amounts, going up to \$50,000,000, are 5 per cent bonds and $4\frac{1}{2}$ per cent bonds. I find that the smallest amounts have the lowest interest charges. I am just wondering if there were not perhaps some way of reducing the annual interest charges by some form of refunding, if at all possible, to bring it all down to an average of 3 per cent, and if we could not possibly save on that basis.

Mr. COOPER: We have made considerable progress in that direction, Mr. Heaps.

Mr. WALSH: On page 20 it shows an appreciable reduction of interest that is charged. You have four items there, Dominion of Canada Loans, $3\frac{3}{4}$ per cent. On last year's statement these varied from 5 per cent down to 4 per cent.

Mr. COOPER: I would like to read these figures: In 1931, our interest charges were \$55,500,000; in 1932, they were \$56,900,000; in 1933, they were \$56,400,000; in 1934, \$55,800,000; in 1935, \$53,400,000; in 1936, \$49,184,000; and in 1937, they were \$48,888,000.

Mr. HEAPS: I just picked this up at random here and there are some recent issues—5 per cent forty-year guaranteed gold bonds due 1969 to the extent of \$60,000,000 issued in 1929; 5 per cent forty-year guaranteed gold bonds due 1969, again \$60,000,000 issued in 1929; $4\frac{3}{4}$ per cent guaranteed bonds issued in 1930, \$50,000,000; $4\frac{1}{2}$ per cent bonds issued in 1931, \$70,000,000. I find that most of the largest amounts—really the bulk of them—have a long time to run. I was wondering if it is at all possible for us to have some form of refunding of the whole thing, or at least part of the capital structure, which would result in a possible large amount of saving. I do not know if Mr. Cooper is the man to answer that, or whether the minister is the man.

Hon. Mr. HOWE: I might say that a very thorough examination was made of this situation by the general manager of the Bank of Canada. He went to Europe for that purpose. A large amount of the large interest bonds are held in Europe. The best advice he could give us was that nothing could be done on a large scale without absolute repudiation; and even there the bonds represented a first mortgage on a principal part of the system. In other words, if we stopped paying interest, the bondholders could seize a part of the railroad and we would be out of business.

Mr. HEAPS: I am not suggesting repudiation of the bonds nor am I suggesting that we do not pay the interest charges. I was wondering if there were any means by which the higher interest bonds of $5\frac{1}{2}$ per cent and $4\frac{3}{4}$ per cent could be in some way refunded so that the interest which would be paid to-day on our bonds would be around about $3\frac{1}{2}$ per cent.

Hon. Mr. HOWE: If we could possibly call those bonds and do that, we would do it; but they are not callable bonds.

Mr. HEAPS: They are not callable bonds?

Hon. Mr. HOWE: No.

Mr. HEAPS: According to what the minister says, we are compelled to go on paying five per cent or approximately five per cent on a very large amount of the bonds now outstanding against the Canadian National Railway System.

Hon. Mr. HOWE: We see no way of changing that position.

Mr. McLARTY: There are none of the higher interest rate bonds that are callable?

Hon. Mr. HOWE: We have a series of \$60,000,000 five per cent bonds callable in 1949. That is the first.

Mr. McLARTY: That is the earliest?

Hon. Mr. HOWE: Yes.

Mr. HUNGERFORD: There is practically nothing callable now.

Mr. HEAPS: I did not quite get that.

The CHAIRMAN: He says there is nothing callable now.

Mr. HEAPS: The government has no right to call in any of these bonds before the date of maturity?

Hon. Mr. HOWE: No.

Mr. YOUNG: I do not know that we ought to be quite satisfied just with any investigation which we have made hitherto with regard to these perpetual non-callable bonds. It seems to me that the interest being paid is entirely out of line. The principle is wrong to begin with. I am not suggesting that any person in this room is responsible for the situation which exists; but when anything is obviously so out of line with present day conditions, I do not think that we can be quite satisfied when we simply say that nothing can be done. I do not believe that. I believe this—and I am speaking not only with regard to the railways—but with regard to bonded indebtedness of the country, and I am not referring to Canada as Canada but to every provincial government and every municipal government, we are going through such a condition that I think it is absolutely imperative that we give this matter very serious consideration. It was not in this committee that I intended to say this. I intended to say it elsewhere. But to me we are simply up on financial stilts; we must get off those financial stilts and we must get on the ground. These non-callable bonds in this national railway are something which should receive great consideration. I do not know that the management of the Canadian National Railways can give it that consideration, but I do believe that we as a parliament must give that consideration and that a remedy must be found; because this country cannot continue to pay the interest rates which we have been called upon to pay throughout the years. It cannot continue to pay them and the Canadian National Railways cannot continue to pay them. I for one am not satisfied that it is good enough to send even the governor of the Bank of Canada to Great Britain to endeavour to negotiate this and he come back and say that it cannot be done. The governments in a lot of the major countries of the world, which I will not attempt to enumerate, found that they could not pay the interest rates which they had been paying and they had a reorganization in their finances. That is true in Great Britain; it is true in Australia; it is true in France; in Germany it amounted to repudiation; and yet here we say, "Well, this thing cannot be done." Well, I doubt very much whether the remarks I am making now are properly made except with regard to this item, because what I have in mind is something very much larger than what is represented in this balance sheet here. But I do not believe that we in this

committee should be content to pass the matter by the minister saying that because the governor of the Bank of Canada had made some attempt, that that is all the attempt that should be made.

Mr. HEAPS: I notice in this item some $6\frac{1}{2}$ per cent bonds still outstanding.

Mr. McKINNON: Seven per cent.

Mr. HEAPS: To the extent of \$24,000,000 and not due until 1946. It seems to me that the amount of our interest charges is altogether too high on the Canadian National Railway System; and I still feel that if perhaps some way could be found of cutting down the interest charges to something in keeping with what interest charges are to-day, we could cut down the deficit on the railway to a fairly large extent. The deficit of \$42,000,000 I think could be almost cut by one-third, just giving a rough guess; and I think it would be a welcome relief to the people of this country if we could do something along that line. Of course, I do not know what the Bank of Canada has done in this regard; I do not know even what the Department of Finance has done; but I think a very determined effort should be made in the direction of seeing if something can be done about these perpetual bonds, some at five per cent, some at four per cent. There is nothing except a comparatively small amount at three per cent; all the rest are at fairly high interest rates compared with what we know at the present time. When we see the interest charges to-day, compared with the charges upon the railway of six per cent—twice as much as we should be paying—I think if we could do something, it should be done; I think if there were some means whereby we could make a great hole—at least, a great dent in this deficit of the Canadian National Railway System, we should adopt it.

Mr. HOWDEN: Mr. Chairman, we seem to have gone by the matter that I had in mind, and that can apply to some extent to the remarks of the two last speakers. What I was going to say was that whereas it has been very desirable that refunding operations perhaps that would lower the cost to the country might be found, I sincerely hope that the management will not allow the remarks of Mr. Walsh or those of Dr. Young or Mr. Heaps unduly to curtail the activities of the railway. Mr. Walsh spoke about the Canadian people being disappointed over this budget matter. The number of Canadian people who peruse these figures or who inspect any of these figures is comparatively slight. I think we noticed in the pages that we have scrutinized that the company has some 79,000 employees. I do believe that the Canadian people would be very much more disappointed and less satisfied to see a poor service on the Canadian National Railways and large numbers of these employees thrown out of employment through an endeavour to economize or possibly to more closely approximate the budget estimate. I imagine that it would be the cause for a great deal more dissatisfaction and disappointment to the people than would the loss of a few dollars through the affording of good railroad service and keeping the employees of the railways reasonably employed and at work.

The CHAIRMAN: Are there any further questions, gentlemen?

Mr. WALSH: Coming back to the budget question again, could Mr. Hungerford explain to the committee in short detail the method by which the budget committee arrived at their figures? How do you proceed?

The CHAIRMAN: Before going on with that, Mr. Walsh, I suppose you understand that last year was the first year that the Canadian National Railways had a budget in advance. In the past, we used to examine the accounts of the Canadian National Railways in arrears, we had no budget. That was the first time in the history of the Canadian National Railways that they were asked to budget in advance and the money was voted in advance by parliament. And I do not think they did so badly, if you consider the conditions of the crops last year.

Mr. HUNGERFORD: I think it might be interesting to you to know how we set up a budget. As late in the fall as possible we have representatives canvass the business men in all sections of the country and get their opinions as to the prospects for the ensuing year. That information is all put together and studied in the light of the circumstances existing at the date of the study. All of the officers that have any knowledge particularly of that subject are consulted; they act as a general committee to consider all of the evidence and information available at that particular time.

But I submit to you that it is a tremendously difficult task to accurately determine what the revenues are going to be twelve months hence. I do not know of anyone who can do that. And in the final analysis it must be the most intelligent guess possible.

Now, when we find that our revenues are not keeping up to the budget figure that has been set, then we do all in our power to reduce our expenses in proportion; but there is a limit beyond which we cannot go in the operation of the railway. We are subject to governmental authority in respect to train service and all forms of services more or less; and, consequently, it is not possible to reduce expenditures in proportion to a drop in traffic. That simply cannot be done. Taken altogether, I doubt if anybody has the ability to forecast what is going to happen months ahead. I would ask you in that regard to consider the situation at the present time. The conditions are unusually disturbed. I would be glad if you would consider the probable earnings in 1938 from that standpoint.

Mr. WALSH: Mr. Chairman, I appreciate those remarks, and I am also hoping that my friend, Dr. Young, does not think that I lack in appreciation of what the West means to Canada. We appreciate that more in the East than probably most people in the West will give us credit for.

There is one other point I wanted to make. I notice after the budget figures were passed last year, immediately afterwards, the railway entered upon tremendous expenditures. It would have been better if they had delayed such operations to a certain extent to note the progress or lack of progress during the course of the year before initiating such tremendous expenditures, some of which might have been delayed seeing that the year was not going to be a propitious one.

As far as my friend, Dr. Howden, is concerned, I do not think there is any member of this committee who desires to see such a curtailment in the expenditures of the Canadian National Railways that will affect even one hour of time of any man employed on that railway.

I would like to ask Mr. Cooper this question: What was the Canadian National Railway budget last year for capital expenditure, and to what extent was that over-expended or under-expended?

Mr. COOPER: The budget estimate was \$9,307,000, and the actual expenditures were \$4,282,000, an expenditure under the budget of \$5,025,000.

The CHAIRMAN: So they were pretty cautious.

Mr. WALSH: That is the kind of cautiousness that I am trying to urge upon the Canadian National Railways for the coming year in connection with operation as well as capital expenditure. I feel that if they would be firm to certain expenditures and not immediately enter upon certain expenditures after the budget is passed, but wait for a certain length of time to determine the development, they will see it will be easier to live within their budget. I was going to discuss another item, but I notice it is one o'clock.

The CHAIRMAN: The committee is adjourned until 4 p.m.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, we were considering at our session this morning page 12 of the report, the consolidated income account, and it was decided that we should not read any particulars of it, but reserve our discussion of details for a later period. Shall we pass on from page 12?

Mr. HEAPS: There is one question I should like to ask as a matter of information, which I hope the finance department of the railway will be able to supply. I should like them to make up a tabulation showing what the annual interest charges would be on the Canadian National system if instead of paying the existing interest charges they were paying an interest charge of 3 per cent.

Mr. COOPER: I can answer that now. It would be 25 per cent less than it is at the present time. It would be \$36,000,000 instead of \$48,000,000 and would save us \$12,000,000 a year in interest charges.

Mr. HEAPS: When you tell me that I feel that \$12,000,000 is worth going after each year. I think 3 per cent at the present time would not be an unfair rate to pay on federal government guaranteed bonds; I am just wondering if there are not ways and means even in spite of what the minister said this morning of doing something about some readjustment on the capital structure in so far as interest charges are concerned.

The CHAIRMAN: I may inform you I instructed the clerk to take a special note of the remarks that were made this morning with a view to embodying them in our report.

Mr. HEAPS: The reason I am saying that is this: I do not want an impression to go out that we want to repudiate interest charges on the Canadian National Railways system, but I think in view of all the circumstances under which the railway was acquired and became government property and in view of the fact that the bondholders are guaranteed interest charges on a railway which was bankrupt when it was taken over by the government, the position of the company ought to have due consideration. I believe it ought to have due consideration in view of the fact that over a period of years the deficit has been large. Probably if a stronger effort was made than ever was made before it might result in the saving of an amount of money to the system which would be, I think, a very good thing for the system and also a very good thing for the Dominion of Canada.

The CHAIRMAN: That will be included in the report, Mr. Heaps. Shall we go on with the operating revenues and details? Mr. Armstrong, will you read that report?

Mr. WALSH: Before you leave page 13, I should like to get some information in that connection. In about the centre of page 13 there is an item there which gives the revenues from hotel operations and the expenses of hotel operations and the taxes on hotel property. I should like to have a statement from the directors of the Canadian National Railways showing the actual investment in each hotel and is being operated at the present time, the amount of revenue obtained during the year 1937 from each hotel operated by the Canadian National Railways system and also the operating costs in connection with each hotel. That is all I wanted to get at the present time. If I can get that information some time before the close of our discussion on the report it will be quite satisfactory.

Mr. HUNGERFORD: We will prepare that.

Mr. WALSH: I also want to take up a matter in connection with the new hotel at Vancouver. When you go back to page 5 you notice a reference to the Vancouver hotel and the item of \$214,388 appears. Could the president tell us about what sum will be required in 1938 to complete the hotel in Vancouver?

Mr. HUNGERFORD: The expenditure in 1938 as shown in the budget amounts to \$1,750,000, and it will take somewhere between one-half and three-quarters of a million to complete the hotel and make it ready for operation. The \$1,750,000 in 1938 would not complete the hotel. It requires from half a million to three-quarters of a million next year to do that.

Mr. WALSH: It will put it in condition where you are going to be able to use it?

Mr. HUNGERFORD: The plan is to open it as near to the 1st June next year as possible.

Mr. WALSH: 1939?

Mr. HUNGERFORD: Yes.

Mr. WALSH: What I wanted to ask is this—and if any member of the committee has the idea that this is becoming political, there is political significance.

The CHAIRMAN: Don't mention it.

Mr. WALSH: There is political significance in it because when the Minister of National Defence has to make an answer on behalf of the Minister of Transport, and he in turn on behalf of the president, the manager of the Canadian National Railways, in the city of Vancouver that this hotel is about to be completed and opened, I could not put any other construction on it than the construction of a political nature. It was the Minister of National Defence, in his home town and home province who was seeking to make political capital out of a huge expenditure by the Canadian National Railway system. I should like to ask the president if the opening of this hotel and the expenses involved have been discussed at a board meeting of the Canadian National Railways, and if that board authorized the Minister of National Defence to make any statement, or why that statement was not made by the person who in the natural course of events should have made the statement, namely the general manager of the railway.

Now, I should like to find out just where the contact came in between the board, the manager, the Minister of National Defence and the Minister of Transport.

The CHAIRMAN: Don't you think it would be fairer to wait until the Minister is able to be present? He is not able to be present this afternoon because he has a bill before the House. Would you mind postponing your question until he is here?

Mr. WALSH: If you will allow me to refer to it again, that will be all right.

Mr. HEAPS: Is not this hotel to be jointly operated by the two railways? There was a report in the newspapers to that effect. I was wondering if it was correct?

Mr. HUNGERFORD: That is the plan.

Mr. HEAPS: Do I understand further that the existing C.P.R. hotel in Vancouver is to cease operation when the new hotel opens?

Mr. HUNGERFORD: Yes.

Mr. HOWDEN: May I ask to what extent the C.P.R. is contributing to the expense of preparing this hotel for operation?

Mr. HUNGERFORD: Nothing.

Mr. HOWDEN: Nothing?

Mr. HUNGERFORD: No.

Mr. HOWDEN: The government is providing a joint terminal for the two railways?

Mr. HUNGERFORD: The C.P.R. contribution consists of various things. They are eliminating competition entirely, and they lend their patronage support to the new structure, and then the Canadian National Railways gets a share in the salvage of the old hotel property.

Mr. WALSH: Can you explain in some detail the arrangements that have been entered into for the operation of this hotel jointly by the Canadian National and the C.P.R.?

Mr. HUNGERFORD: There will be a hotel company formed, the common stock of which will be owned jointly by the two companies. The Canadian National will lease this hotel to the operating company, and the Canadian National after the payment of operating expenses, taxes, depreciation on furniture and things of that kind, will be entitled to a certain income rental.

Mr. HEAPS: In case there is a loss will the loss be shared jointly by the two railway companies?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: Will that apply also to the capital cost of the hotel?

Mr. HUNGERFORD: No.

Mr. HEAPS: In so far as the capital of the hotel is concerned that will be borne by the government?

Mr. HUNGERFORD: The Canadian National.

Mr. HEAPS: In regard to an operating loss, assuming there is one, which we do not know, that will be shared jointly?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: If there is a profit on the operating of the hotel will that go towards paying off the capital expenditures involved?

Mr. HUNGERFORD: I had not completed my statement in answer to Mr. Walsh. The rental that will be paid to the Canadian National by the operating company will be on an income basis, up to a maximum of \$280,000 a year. Out of what is paid by the operating company to the Canadian National, 25 per cent will be paid to the C.P.R. and 75 per cent will be retained by the Canadian National. If the hotel is operated at a loss then the Canadian Pacific Railway will have to join with the Canadian National in supplying the additional working capital.

Mr. HEAPS: Only for the operating capital or expenditures.

Mr. HUNGERFORD: Practically so, yes.

Mr. HEAPS: Nothing in regard to the capital cost.

The CHAIRMAN: Any further questions?

Mr. YOUNG: I think we ought to have a complete statement on this matter. The things we have had have been so abbreviated that I doubt if anybody in this committee can follow what took place out there. I think that we should have a complete statement of the whole picture of just exactly what took place and how the thing came about.

Mr. HUNGERFORD: Well, what is it you want, Mr. Young? The agreement that was reached?

Mr. YOUNG: I would like to know just what the whole agreement is. For instance, there is a hotel out there now not owned by us. Apparently in some way or another we became involved in a hotel we do not own.

Some Hon. MEMBERS: No.

Mr. YOUNG: Perhaps we could have somebody tell us about it.

Mr. HUNGERFORD: We are entitled to half of the salvage from the old hotel exclusive of furniture. There is an arrangement about the furniture.

Mr. HEAPS: You can utilize part of the hotel at Vancouver

Mr. HUNGERFORD: We are trying to do that. What proportion of the old furniture would be suitable in the new hotel can only be determined by a survey. That has not been done yet.

Mr. McKINNON: How many of the hotels paid operating costs?

Hon. Mr. STEWART: Before we leave that may I ask the chairman what he means by "salvage" of the Canadian Pacific hotel? How far does that go? Does it apply only to the building itself?

Mr. HUNGERFORD: No. We are not quite sure how it will develop, Mr. Stewart. The building may be torn down and the property sold.

Hon. Mr. STEWART: Where a hotel is destroyed, is that salvage?

Mr. HUNGERFORD: Yes.

Hon. Mr. STEWART: If it is sold then you get the proceeds?

Mr. HUNGERFORD: Yes, whatever it covers, or if it should happen that we can make a satisfactory lease of the premises for a certain length of time we will share in that.

Mr. YOUNG: They would make a lease?

Mr. HUNGERFORD: The Canadian Pacific would make a lease.

Mr. McKINNON: Would it be possible that that property might be leased to another hotel company?

Mr. HUNGERFORD: No. The Canadian Pacific undertakes not to carry on any hotel business in Vancouver during the tenure of this lease.

Mr. McKINNON: And they will not lease the present hotel to another company to operate as a hotel.

Mr. HUNGERFORD: No.

Mr. YOUNG: I think the shortest way would be to have a copy of any agreement which exists placed before this committee, and that perhaps would be the quickest way of getting the information before the committee.

The CHAIRMAN: Is there any objection to that?

Mr. HUNGERFORD: I do not think so.

The CHAIRMAN: The agreement is not signed yet, Mr. Young.

Mr. HUNGERFORD: That is, not the formal agreement, the tentative agreement is signed. Frankly I do not think that should be published at this stage, but if the committee wants it—

The CHAIRMAN: What is the pleasure of the committee? It is not advisable that the details of this agreement should be made public. If a copy is given to each member privately would that be satisfactory?

Hon. Mr. STEWART: I am not sure that it is not desirable that these details be made public. After some of the remarks which we hear about the C.P.R. getting the advantage out of this agreement—which I do not believe for a moment—it seems to me that possibly it might be desirable to have a full statement made, or at least a summary of the terms of the agreement, prepared by the chairman, without going too much into detail covering the conditions that he has outlined.

The CHAIRMAN: Would that be satisfactory?

Hon. Mr. STEWART: I haven't any doubt that the agreement will be found to be a fair and reasonable one under the circumstances. I think it is in the public interest that we should be able to know about it in order to be able to answer these wild criticisms that we do hear from time to time in all matters of this kind.

The CHAIRMAN: As a matter of fact there is only part of the agreement that has been signed at the present time and until it is completed I do not see how we could possibly make it public; but, if the members of the committee would be satisfied with a statement signed by the president of the road explaining the circumstances as they stand today, surely that ought to be satisfactory.

Mr. HOWDEN: I do not believe we will need a signed statement, if the president of the road will make up a summary of the essential point of the agreement that should satisfy the committee.

The CHAIRMAN: You mean, that Mr. Hungerford prepare a statement to be read to the committee here? Would that be satisfactory?

Mr. HUNGERFORD: Yes.

Mr. HOWDEN: Yes, a summary of the essential points.

The CHAIRMAN: We will now turn to operating revenue; go ahead Mr. Armstrong.

Mr. MCKINNON: I would like Mr. Cooper to answer the question I asked him about hotels.

Mr. COOPER: You mean, about the number operated at a profit?

Mr. MCKINNON: Yes.

Mr. COOPER: There are six.

Mr. MCKINNON: Do these mountain resort hotels operate at a profit?

Mr. COOPER: Jasper Park and Minaki operated at a profit. Pictou lost \$40. So that out of the three mountain resorts—if you call Pictou a mountain resort—two were profitable from an operating point of view and one lost \$40.

Mr. EMMERSON: What about the eastern hotels, the Nova Scotian and Charlottetown, do you include those?

Mr. COOPER: No, I was referring to the Pictou Lodge.

Mr. EMMERSON: Yes, that is the summer lodge; but how about those that are continually in operation?

Mr. COOPER: The Nova Scotian operated at a profit of \$7,493, and the Charlottetown hotel lost \$6,600.

Mr. HOWDEN: Then the two balance, one against the other.

Mr. COOPER: Yes, sir.

Mr. HOWDEN: What year was the one in Charlottetown opened?

Mr. ARMSTRONG: It was opened in 1930.

The CHAIRMAN: Go ahead, Mr. Armstrong.

Mr. ARMSTRONG: Pardon me, 1931, sir. Operating revenues—shall I read each of the items?

The CHAIRMAN: Yes, until they ask questions you better go on.

Mr. WALSH: Why read it, we have it all here?

The CHAIRMAN: I am quite satisfied, but I thought it was the wish of members of the committee.

Mr. WALSH: We can ask questions?

The CHAIRMAN: I will take it then that you have all the details before you.

Mr. WALSH: In connection with express—

The CHAIRMAN: I love that kind of business.

Mr. WALSH: Thank you. The revenue from express I presume is affected in some way by the charges made by the parcel post delivery; is that right?

Mr. ARMSTRONG: You mean, that the reduction in the parcel post rate had an effect?

Mr. WALSH: When the parcel post made a reduction in their charges and an increase in the amount they will carry as parcel post, that has a direct effect I presume on the business of the express company operated by the Canadian National?

Mr. ARMSTRONG: It is directly competitive with express.

Mr. WALSH: If they reduce their rates naturally express has to follow suit?

Mr. HUNGERFORD: Quite.

Mr. WALSH: Of course, I presume it is not the business of this committee, but I am under the impression that the parcel post business of the Post Office Department is not on a paying basis. We can all understand that. Now, is there any way or means that can be adopted whereby the Post Office Department could work in harmony in conjunction with the express department of the Canadian National Railways in order to carry parcel post at a reasonable rate and get at an equitable rate, so that the railways can either make more money on express or stand less chance of losing money?

The CHAIRMAN: Then the post office will lose revenue.

Mr. WALSH: The post office will not lose the revenue. The Post Office Department at the present time I feel are carrying parcels at too low a rate. It is very satisfactory from the public standpoint, I quite recognize that; very satisfactory. But the public are getting a low rate on parcel post and we are paying it out indirectly with the other hand by the deficit of the Canadian National Railways. Now, with a view to improving the position of the Canadian National Railways and to reducing a part of these deficits I make the suggestion that the parcel post is having a very direct bearing on the revenues of the express company and to that extent helping the railway company show a larger deficit than they would be showing under normal conditions. Now, is it possible to have a closer collaboration between both so that rates could be made more equitable and more in harmony with the cost of carriage.

Mr. HUNGERFORD: I do not see how the railway could bring that about, Mr. Walsh.

Mr. WALSH: I presume the government could, seeing that the government is directly interested in the Post Office Department and indirectly interested in the railways, and the government should take some kind of a step in order to reach an agreement whereby the Post Office parcel rates are on a sound economic basis. In the old days I know the express company carried parcels on an economic basis, on a cost basis. Now, I feel that we are not carrying parcels on a cost basis as far as the post office is concerned. I do not want to appear as though I am advocating an increase in the cost for post office facilities, but I do not see that the Canadian National should be charged with a deficit of \$43,000,000 a year when part of that deficit could be looked after by a more economic working basis as far the parcel post and express services throughout the country are concerned.

The CHAIRMAN: Without divulging any secret, I think that the matter is already under way.

Mr. WALSH: Thank you.

Mr. HOWDEN: Mr. Chairman, I have often wondered—it is a matter of information I am after alone—with regard to the mail item, just what sort of an agreement is there between the railways for the transportation of mail? Is it tendered for, or why will one railway have the bulk of the mail carrying, the through mail carrying, and the other railway have comparatively none?

An Hon. MEMBER: It is pretty well divided.

Mr. HOWDEN: That is what I want to know, whether it is fifty-fifty, or how it works out. I had always been under the opinion that the old railway carried the bulk of the mail across Canada.

The CHAIRMAN: I think it is hardly fair that this committee discuss this, these arrangements are made by the Post Office Department.

Mr. HOWDEN: It is something that we men as members of parliament should know something about.

The CHAIRMAN: You can ask the Postmaster General about it when his estimates are up in the house.

Mr. HOWDEN: No, it is part of this report also.

The CHAIRMAN: Only in so far as the Canadian National is concerned.

Mr. HOWDEN: I would like to know just on what basis the Post Office Department pays the railways for carrying mails.

The CHAIRMAN: As far as the Canadian National Railway is concerned.

Mr. HOWDEN: As far as the Canadian National is concerned.

The CHAIRMAN: That is proper.

Mr. HOWDEN: Now, I understand that the parcel post—which was referred to by Mr. Walsh—have increased the weight of package they will carry from 15 pounds to 25 pounds?

The CHAIRMAN: Yes, to 25 pounds.

Mr. HOWDEN: And I wanted to know what effect that had with regard to the formal contact with the railways. Do they get more money because there was more mail to be carried; or, do they get a lump sum? That is a thing which I have never been able to find out.

Mr. HUNGERFORD: As the Chairman has indicated, that is a matter which is under consideration now; but the general form of contract between railways—all railways—and the Post Office Department is that the latter pays so much for a given amount of space in a car; it may be half a car, or a quarter of a car, or a full car. They pay so much for it.

Mr. VIEN: Can we get those figures?

Mr. COOPER: We have the figures here if you want them.

Mr. HOWDEN: In the matter of carrying mail to the same terminal is the selection of the railway determined by tender, or how is the selection made?

Mr. HUNGERFORD: It is made by the Post Office Department.

Mr. VIEN: Could we have the basis on which mails are being carried now?

Mr. ARMSTRONG: That is, the rates for spaces of various sizes?

Mr. VIEN: Yes, the basis on which it is paid for?

Mr. ARMSTRONG: We will have to get that information for you.

Mr. VIEN: All right, at a later date. I would take it for granted then that the same basis applies to all Canadian railways?

Mr. HUNGERFORD: I think so.

Mr. VIEN: Now, Mr. Chairman, I wonder if it would be feasible to have a break-up in the figures of operating expenses somewhat along the same lines as that break-up in the figures of operating revenues. You take for instance with respect to Mr. Walsh's express item; have you the figures on operating expenses in express matters? Under the head of operating revenue we find that in 1936 you had a revenue, a gross revenue of \$8,497,000, and in 1937 a gross revenue of \$8,915,000. Could we have a break-up of the operating expenses? How much did the express service cost in 1936, and in 1937? Have you got those figures?

Mr. SMART: You have got the wrong figures haven't you? It was \$3,504,000 in 1937 and \$3,355,000 in 1936—that is under mail. Oh, you were talking about express.

Mr. VIEN: I am talking about express now.

The CHAIRMAN: And you want the total of the expenses, all the items comprehended in the summary of operating expense?

Mr. VIEN: Yes.

Mr. HUNGERFORD: You want the full details.

Mr. VIEN: I want to get the full details, but I would like to know if there is any difficulty in giving us the same details in connection with expenses. I would like to have it on the same basis as it is furnished in respect to revenues.

Mr. COOPER: The revenues in 1937 were \$8,915,000.

Mr. VIEN: Might I ask those gentlemen at the head table if they could speak a little louder, because the acoustics are not very good here and if we want to follow what is being given we have got to be able to hear it.

Mr. COOPER: The revenues for 1937 were \$8,915,000.

Mr. VIEN: Yes.

Mr. COOPER: The expenses for 1937 were \$4,893,000.

Mr. VIEN: Will you give me the same figures on expenses in 1936?

Mr. COOPER: Yes, \$4,686,000.

Mr. VIEN: Yes.

Mr. COOPER: I would point out that in the express department operating expenses, we do not include the repairs of rolling stock used in the express service nor do we include the cost of hauling express cars.

Mr. VIEN: It would be only out-of-pocket expenses for the express services without taking into account equipment?

Mr. COOPER: And the haul of express cars.

Mr. VIEN: And the haulage of the equipment?

Mr. COOPER: Yes.

Mr. VIEN: But have you any apportionment of the cost of the equipment and of the hauling of the equipment in your own figures? In setting up your own figures, to determine whether your express services are a paying proposition or a losing proposition, would you not make an arbitrary or a somewhat arbitrary division of figures so as to arrive at some approximate idea of whether the express service is on a paying basis or not?

Mr. COOPER: Well, we do not do it as routine work. If that knowledge were required, a special cost analysis of operations would be involved.

Mr. VIEN: Have you these figures available?

Mr. COOPER: No, sir.

Mr. VIEN: How can you ascertain if your express services are a paying proposition or a losing proposition? Are you charging to the express service the use of the cars on a wheelage basis or a mileage basis?

Mr. COOPER: We do not charge to the express service in the figures which I have given anything whatever for the upkeep of the rolling stock or the hauling of the cars.

Mr. VIEN: How are your express services carried on? It is a department of the company, is it?

Mr. COOPER: Yes.

Mr. VIEN: It is considered a department of the company?

Mr. COOPER: Yes.

Mr. VIEN: Are you not charging that department with a certain proportion of the cost of maintaining the equipment?

Mr. COOPER: No, sir.

Mr. VIEN: Should you not?

Mr. COOPER: We would if it were required—for instance, if you had a rate investigation.

Mr. VIEN: No; but I would imagine that for your own personal guidance it would be helpful to know whether your express services are paying or not.

Mr. ARMSTRONG: May I say that we have from time to time made an analysis of the value of the express department to the balance of the system. You can take it on two different bases. You can take it on the amount of revenue you get in from the express business and the actual amount of out-of-pocket cost that you have chargeable against the express business. That would give you one answer.

Mr. YOUNG: What do you mean by out-of-pocket cost?

Mr. ARMSTRONG: I mean additional expenses we have because we operate express; in other words, if we do not operate express to-morrow, how much expense could we save?

Mr. VIEN: I think you said just a moment ago that you did not charge anything.

Mr. ARMSTRONG: No. I said we make a special analysis from time to time—possibly once every two or three years—to see what the value of the express department is to the balance of the system.

Mr. HEAPS: Does the company fix its own express rates?

Mr. ARMSTRONG: How do you mean?

Mr. HEAPS: Well, does it fix its own charges or is that done by the railway commission?

Mr. ARMSTRONG: By the railway commission.

Mr. YOUNG: They are approved by the railway commission.

Mr. ARMSTRONG: The company proposes the rate and the board approves the rate.

Mr. YOUNG: Do you set them in conjunction with the other railway companies?

Mr. ARMSTRONG: Yes. The rates are standard rates.

Mr. YOUNG: Uniform rates?

Mr. ARMSTRONG: Yes.

Mr. VIEN: Through the Canadian Express Association?

Mr. ARMSTRONG: Yes.

Mr. VIEN: To which you belong?

Mr. ARMSTRONG: Yes.

Mr. VIEN: And it works with the railway board in connection with the tariff?

Mr. ARMSTRONG: Yes.

Mr. VIEN: The express tariff?

Mr. ARMSTRONG: Yes.

Mr. VIEN: If I recall correctly, when express rates are under review there is a certain charge made for the use of the cars; there is an arbitrary apportionment of overhead and fixed charges as well as a direct charge as part of the expenses, of the out-of-pocket expenses; there is a certain charge—I forget if it is on a car mileage basis or a tonnage basis; but I thought that there was a certain apportionment of expenses to take care of the cost of the cars.

Mr. ARMSTRONG: Perhaps this will clear it up. In the accounts as they are set up, they merely represent—the accounts we are speaking about here now in the annual report—the revenues of the express department and the direct expenses of the express department. They do not include as express expenses

the cost of hauling and maintenance of rolling stock. We also set up a figure—from time to time we analyse the express department figures to see its value to the rest of the system and we add the out-of-pocket cost for this—for the haul of the cars and for the repair of the cars.

Mr. VIEN: And for the investment—to take care of the investment and sinking fund on your rolling stock?

Mr. ARMSTRONG: If there is sufficient available, yes. I mean, that is added in to see what the final picture is. The express department, as a department, adds to the system net on an out-of-pocket basis; in other words, it is of value, of substantial value, to the rest of the system.

Mr. VIEN: Yes. But you have express cars. You have a certain number of express cars. They cost your system a certain amount of money and they depreciate by usage. Then you have your cash investment in your equipment, your maintenance cost and your sinking fund to take care of the retirement of this equipment in a certain number of years. All that is really expense incurred with respect to the express services.

Mr. ARMSTRONG: Quite so.

Mr. VIEN: Therefore, to make up a true picture of whether your express services are a paying or a losing proposition, you should take into account, in my humble opinion, not only the out-of-pocket expenses to carry the express matters on your equipment but also a certain amount to take care of the investment in the equipment and the maintenance of the equipment and the retirement of the equipment.

Mr. ARMSTRONG: That is, sir, out-of-pocket cost in this particular case.

Mr. VIEN: Yes.

Mr. ARMSTRONG: That is, interest becomes out-of-pocket cost; otherwise you could get rid of this equipment if you did not operate express. When I say out-of-pocket cost, it would include both interest and depreciation—it is an economic study of the whole matter.

Mr. VIEN: Yes, but these are the figures that we would like to arrive at—at least I would like to arrive at, if it is not too much trouble.

Mr. ARMSTRONG: I have not a copy of the last one that was made, but we could get a copy of it.

Mr. VIEN: Do you get that from year to year?

Mr. ARMSTRONG: I would not say it is done every year, but it is done quite frequently; I would say at least every two years.

Mr. VIEN: For instance, can you tell us from the information in your possession whether your express services are a paying proposition or a losing proposition, taking into account not only the out-of-pocket expenses following the movement of the goods but as well the other items that I have mentioned?

Mr. ARMSTRONG: We will furnish you with a statement. I would say that on the out-of-pocket basis that I have described, the express is a paying proposition.

Mr. VIEN: Even taking into account the overhead and fixed charges?

Mr. ARMSTRONG: When you say fixed charges, of course it would include merely fixed charges on your equipment?

Mr. VIEN: Yes.

Mr. ARMSTRONG: My recollection is that there is sufficient to pay that. I would like to check that. That is merely the equipment.

Mr. VIEN: Yes, and haulage?

Mr. ARMSTRONG: Yes; haulage of equipment.

Mr. VIEN: And you will furnish those figures?

Mr. ARMSTRONG: Yes.

Mr. VIEN: The same with respect to mail. For instance, is the mail service a paying service?

Mr. ARMSTRONG: Well, again, speaking on an out-of-pocket basis, we get a revenue from mail of something in the neighbourhood of \$2,800,000 a year.

Mr. BOTHWELL: Three and a half million.

Mr. VIEN: You had \$3,504,000 in 1937.

Mr. ARMSTRONG: In Canada and the United States together, three and a half million.

Mr. VIEN: And \$3,355,000 in 1936. It would be interesting to know how much this service has cost you. I am going to tell you why I am asking this, and I am glad the honourable the minister is here; because I would suggest that it would be totally unfair to the Canadian National Railway System to carry the mail of His Majesty at an expense to the system; and my honourable friend the minister might well ask the honourable the Postmaster General to be a little more generous towards the system and the other railways as well.

Hon. Mr. HOWE: I find they are very penurious over in that department.

Mr. VIEN: I know the ingenuity of the honourable the minister, and I think he is such a driving force that he can overcome that difficulty.

The CHAIRMAN: He can strike a good bargain.

Mr. VIEN: I would suggest it would be unfair to the Canadian railways—not only the Canadian National System but the Canadian Pacific as well—that they should be called upon to carry His Majesty's mail throughout this country at an expense to their system. They should receive adequate compensation and this adequate expense should include not only the out-of-pocket expenses incurred in a movement of the mails, but as well a certain compensation for the equipment and the retirement of the equipment. It would be helpful to us in that direction to have the figures as to how much that service does cost the system; and that should include not only the out-of-pocket expenses explained but as well a certain compensation for the cash investment in the rolling stock, the haulage and a certain amount for the amortization or the retirement of the equipment in due course. Now, on this, Mr. Chairman, it might be appropriate to ask the officers of the Canadian National Railway System if in the express services there could not be a greater pooling of the efforts of the two systems. For instance, you have express agencies in all the large cities, towns and localities in Canada. There are agents there to try to sell the services of both systems to the public. If there were only one express system in Canada, matters to be shipped to destinations on the Canadian National would be routed via C.N.R.; matters destined or originating on the C.P.R. system would be routed via C.P.R.; but there would be only one management and there would be only one express agency in the various cities and towns.

Mr. YOUNG: May I ask a question just there. Suppose that took place between Ottawa and Montreal; it would be routed as you say on the C.P.R. where the C.P.R. goes and C.N. where the C.N. goes. Which line would it be routed on between here and Montreal?

Mr. VIEN: There would be an apportionment between the two systems of the gross earnings or of the net earnings of the material. Take for instance, between Montreal and Toronto, Montreal and Ottawa, or points served by the two railway systems.

Mr. HEAPS: Suppose they went direct from here to Montreal?

Mr. VIEN: Yes. Why should there be an express agency to take materials from Ottawa to Montreal via C.P. and via C.N.?

Mr. YOUNG: Would the same thing not apply to freight?

Mr. VIEN: Largely, yes.

Mr. YOUNG: If so, what would you have then?

Mr. VIEN: What would you have then?

Mr. YOUNG: Yes.

Mr. VIEN: A considerable saving of expenses.

Mr. YOUNG: Apart from that, what would you have?

Mr. VIEN: What would you have then?

Mr. YOUNG: Yes.

Mr. VIEN: You would have considerable saving.

Mr. YOUNG: You would have what some people call unification, would you not?

Mr. VIEN: I am not particularly concerned about the term "unification," I am simply concerned about suggesting. I am not presently urging unification.

Mr. HEAPS: Is it not unification that you are suggesting?

Mr. VIEN: No; pooling.

Mr. HEAPS: What is the difference?

Mr. VIEN: There is a difference.

Mr. HEAPS: No, you are just splitting hairs.

Mr. VIEN: Oh, no. My honourable friend is certainly mistaken. There is a vast difference between unification of the systems, as has been advocated in certain quarters; and I am not so far from saying that there is some merit in some of the ideas that have been propounded. I am not committing myself to a policy now. But there is some merit in some of the speeches that I have read, and I think there is no question but that there is an enormous amount of merit in the idea of pooling services when such pooling is practicable.

Mr. McKINNON: Is that not being done right now?

Mr. VIEN: To a certain extent. My question now is directed to the management. I am not suggesting that there is something sinister being done or that there is any fault or any negligence, I am not suggesting that at all. There may be a very reasonable reply to my question. But my question, and I put it with an open mind, and I am not suggesting that the answer should be in the affirmative though I am putting it forward with all candour, is as follows: Would it be advantageous to this country to have only one railway express agency, and that all should be pooled from Halifax to Vancouver under a certain system that could be devised whereby the net profits, the net earnings, could be divided between the two services? What I have said of the express service I am asking with respect to the commercial telegraph activities of both railway systems. That is my question, and I ask it not with a view to urging the officials to answer in either way. I am simply seeking information.

Mr. HEAPS: Is that not asking a great deal on such sudden notice, for the management of the railway to answer? I have no objection, of course, to the question being answered, but I think in fairness to the management, when you ask them to give you a report on the question of pooling the services on certain portions of the railway, that is, the express service and the telegraph service, you should not expect an immediate answer.

Mr. VIEN: I am not suggesting that they should give an immediate answer.

Mr. HEAPS: What I am suggesting is that you should give some opportunity to them to answer your question.

Mr. VIEN: The management is perfectly at liberty to take a week, two weeks or a month; I am not asking for an answer right off the bat. But this is a question which suggests itself to me as a member of parliament. There is no

doubt but that we should all be very much concerned about the net operating results of the government owned railway system. We are called upon to write off large capital outlays of money. We are called upon every year to pay a certain operating deficit; if not operating, a certain net deficit. I have the greatest admiration for the management of the Canadian National Railways. I think that we have put at the head of the Canadian National Railways the best men, the most efficient men that were available in Canada. I take much pleasure in supporting the views that Mr. Walsh so ably expressed this morning with respect to Mr. Cooper, but the same could be said with the same degree of accuracy of Mr. Hungerford and all the eminent gentlemen who are with him at the head of the Canadian National system. I am not laying at their doorstep the deficit of \$42,000,000 that we have to face in parliament.

But what is the purpose of this committee if we are not going to study together the problems that confront the country and parliament as a whole? It has been referred to this committee for the purpose of studying the various questions, and among them is the one I have just put forward.

Without limiting the freedom of action of the Canadian National system, is there not a possibility of augmenting the net revenue from the railways by pooling certain services which are not necessary to the carrying on of their railway operations and to save duplication of services and a great deal of money?

The CHAIRMAN: You have asked three different questions. First of all, the management has undertaken to give you a report on the express situation. Secondly, as far as the mail service is concerned, as this involves two departments, the railways and the post office department, I think it had better be left in abeyance. As far as the third question is concerned, I suppose you will give some time to the management to think the matter over?

Mr. VIEN: Yes.

Mr. YOUNG: Mr. Chairman, with regard to the third question, it strikes me that we are a little outside of our reference.

The CHAIRMAN: I think we are.

Mr. YOUNG: We are not here to discuss the question of what the policy of this country should be with regard to unification, amalgamation or transportation generally. I take it that that is not the function of this committee. Every question that Mr. Vien has asked, in the third section of his address, would I think refer only to those things which I have mentioned. His question will be to the management of the road to express their views on those matters. We are investigating the operation and management of The Canadian National Railways, not as between two roads or how they would be affected. And I cannot help but feel that we are just a bit wide of the mark when going into that much wider question.

The CHAIRMAN: I would like you to remember that Mr. Vien did not press for an answer.

Mr. YOUNG: Oh, yes; my friend alongside of me said, "I am not suggesting that the management should not answer." It went that far. I am suggesting that it might be improper for the management to answer. I am going that far, myself, because the management of this road is not called upon to form the policy of this country up to the present moment.

The CHAIRMAN: In answer to Mr. Vien, the management may come before us to-morrow and, after due consideration, tell us that they do not consider it is in the interests of the public that this should be discussed here.

Mr. YOUNG: I do not think it is up to the management to say anything of the kind, if I may so suggest; because it is up to us to see that we conduct our affairs here properly in accordance with our reference. We have a reference, and I for one am not going to be a party to asking this management what

they think about amalgamation or unification, and I think the sooner we express that view and the more clearly we express it, the better for all concerned. Mr. Vien might not have had this in mind, perhaps not; anyhow, that is the way it strikes me, and as one member of the committee I want to express the view that I do not think it is a proper question to discuss, the implied question of what this country would save or would not save had we unification, or whether or not that policy should be brought into operation. I do not think that is for this management to say.

In connection with through mail service from Montreal to Vancouver, do you carry all the through mail on that route?

Mr. ARMSTRONG: No.

Mr. YOUNG: Do you carry all the through mail from Toronto to Vancouver?

Mr. ARMSTRONG: No.

Mr. YOUNG: What proportion of the through mail do you carry from each of those points?

Mr. ARMSTRONG: We would not know it by routes. We certainly carry the smaller proportion of those particular services.

Mr. HOWDEN: Do you carry any except to those post offices which your railway serves?

Mr. ARMSTRONG: I do not think that we carry any through mail. It is principally local mail that we carry.

Mr. VIEN: How are these through mails divided between the two services?

Mr. ARMSTRONG: Shall I give you the revenues for the year 1937? In Canada the Canadian National in 1937 obtained \$2,951,514; The Canadian Pacific obtained \$3,596,176. That is for the year 1937.

Mr. VIEN: My question was this: On what basis are the mails divided between the two systems?

Mr. ARMSTRONG: That is done by the post office department.

Mr. VIEN: Yes, but that does not answer my question fully. Is there any basis on which the mail matters are divided between the two systems?

Mr. HEAPS: I suppose that is a matter for the post office to determine.

Mr. VIEN: If the officers cannot answer, they will say so.

Mr. ARMSTRONG: The answer I gave was, that it was divided or arranged by the post office department.

Mr. VIEN: But do you know on what basis the post office department proceeds to distribute mail matters between the two systems?

Mr. HUNGERFORD: No, we do not know that.

Hon. Mr. STEWART: In some areas one railway will have better facilities for carrying the mail, and in another area the other railway will have better facilities. And, of course, we know that the post office endeavours to make the mail service as rapid and efficient as possible. That must surely be an element. And then I have always understood—the figures, I think, have been given in parliament at different times—that as far as possible there is an effort, apart from that area in which they can give special service, to divide it about equally.

Mr. YOUNG: Did I understand one of the officers of the company to say that in respect to through mail from Montreal and Toronto, the two points I mentioned specifically, they did not carry any of that mail?

Mr. ARMSTRONG: No, sir.

Mr. HUNGERFORD: Not Montreal to Toronto.

Mr. YOUNG: No, Montreal and Toronto to Vancouver.

Mr. MCKINNON: You do not carry any of that mail?

Mr. ARMSTRONG: So far as I know, there is no through mail carried.

Mr. YOUNG: Would the service on the Canadian National Railways from Montreal to Vancouver and from Toronto to Vancouver be less advantageous from the point of view of carrying mails than if they were carried on the other road?

Mr. HUNGERFORD: The Canadian Pacific runs two trains a day. We run one for the most of the territory. They serve certain communities and we serve other communities, and it is a matter of judgment by the post office department as to how the mail shall be divided. In general I think it is probably fair to say that the Canadian National—I am speaking wholly from memory now—carries far more mail from Halifax through to the Detroit River en route to Chicago than does the Canadian Pacific in that corresponding territory. I think it is also equally true to say that the Canadian Pacific has the larger share of the transcontinental traffic. But, after all, it is a matter for the post office department to decide. They have it in their power, and they decide how the mail is going to go.

Mr. WALSH: Following up that item, the Canadian National is an up-to-date business organization and in competition with another up to the minute business organization, and they have these figures before them—three million against two million. Now, have their board of directors ever canvassed that situation and reached the conclusion that they were not getting a fair proportion of the business, and have they made representations accordingly, like two business firms? If I were in business and General Fiset was in business and he was getting three million and I two million from the same source, well, I would be on my toes raising a holler for more business, especially in view of the fact that my deficit that I was creating was being paid for by the party that was distributing that business. I should like to make the suggestion that the Canadian National Railways, through their board of directors, should take steps to see that they get a more adequate share of the business, particularly in view of the fact that the Canadian National Railways have 119,000 employees against 68,000 of the C.P.R., or how does it go?

Mr. HEAPS: It is slightly high.

Mr. WALSH: The Canadian National has more mileage of railways than the Canadian Pacific. Is not that right?

Mr. ARMSTRONG: The Canadian National has 79,000 employees.

Mr. WALSH: And the Canadian Pacific 68,000.

Mr. ARMSTRONG: The Canadian National includes telegraphs and express; I understand the Canadian Pacific does not.

Mr. WALSH: That was the point I was bringing out. It seems to me the Canadian National Railways are not getting a fair share of the business from the government. I think steps ought to be taken.

Mr. HUNGERFORD: What would you suggest that we do?

Mr. WALSH: I would suggest that the president of the railway interview the post office department and see to what extent you are being let down, the same as I would do if it was my own business, and the same as you would do if it was your own business and you were losing \$42,000,000 a year. If that were happening you would go to your source of revenue to see if you could get an increase in revenue. That is what I would suggest doing. If the shoe were on the other foot and the Canadian Pacific were getting \$2,000,000 and you were getting \$3,000,000, I have no doubt in my mind that they would have someone interviewing someone in the post office department and the government to see what they could do about increasing their proportion and getting their share.

Now, may I leave that matter and take up the suggestion made by Dr. Young. Dr. Young suggested that it was not within the purview of this committee to discuss what Colonel Vien has suggested in connection with closer and more effective co-operation. Now, I should like to draw Dr. Young's attention to a part of the report of the Canadian National Railways which deals with co-operation and deals with competition. If we cannot discuss what Colonel Vien has brought before this committee I do not see to what extent the word "co-operation" has any significance in the report of the Canadian National Railways. I feel Colonel Vien has brought a very important matter before this committee and that it is within our purview to discuss that and to do something more effective than actually discussing it. We have to realize that we are trustees for the people of Canada, and we are costing the people of Canada at least \$42,000,000 to \$43,000,000 on this year's operations of the Canadian National Railways. Surely, we can discuss ways and means of making that less burdensome to the people of Canada without in any way inflicting a hardship on any person living in the Dominion of Canada.

I should not like to urge Colonel Vien's scheme or suggestions if it was going to cost any man in connection with the express service, either of the Canadian Pacific or the Canadian National Railways, one hour's time or one day's work, or one man's job.

Mr. HEAPS: How are you going to prevent it?

Mr. WALSH: It can be done.

Mr. HEAPS: How?

Mr. WALSH: By the natural shrinkage and superannuation and things of that nature. It seems to me that there are certain members of parliament who want to see continually this deficit of \$42,000,000 to \$43,000,000 a year. It seems to me that is the whole object. How can it be done? Well, let us try to find ways and means of doing it without asking a man to give up his job. The natural shrinkage in the express department personnel is about 5 to 6 per cent a year, and there are other means of providing shrinkages without asking a man to leave the service. Surely there must be ways and means. If it were our private business and we were in the condition, we would find ways and means and we would not be heartless in doing it. That is the point. I should like to give Colonel Vien every possible support I can in this matter. That is my sole object in coming before this committee and in studying these reports as I do from year to year. My whole object is to work in harmony with the management to bring about a condition so that the Canadian National Railways will be a paying proposition to the people of Canada as was promised in the first report that was brought into being in 1922. It was suggested at that time that it would be possible to make this railway a paying proposition. Now, I still believe that it might be possible; I still believe that, and I believe that Colonel Vien has made a suggestion which will make it possible, without in any way identifying ourselves with unification. I know that unification sounds like amalgamation to a lot of people; but it does not mean the same thing. I do not think any one is willing at the present time, especially those who sit on this committee, and I include myself, to suggest that they are favourable to unification. We have not got unification in mind. Here are two departments, the department of express and telegraph lines where co-operation could be brought about to the advantage of both railways which would mean a saving of money to the Canadian Pacific and a saving of money to the Canadian National, and without costing one man one hour of time on either railway. It may take more than a year or two years, or three years to bring that about, but we can start with that objective, and over a period of time with the natural shrinkage and other shrinkages that take place in the personnel from year to

year you would find that the slack would be fully taken up and in five years time we would have good evidence of what could be accomplished in the field of closer co-operation.

Hon. Mr. HOWE: Mr. Chairman, I may point out that it takes two railways to work out a co-operation plan. At the present time the Senate has arranged a full dress investigation into both co-operation and unification. Mr. Hungerford will be appearing there in a week or two to answer such questions as the Senate may ask him on this very subject. He will be confronted there by Sir Edward Beatty of the Canadian Pacific Railway, and both parties will be able to discuss the subject. In this committee we could have Mr. Hungerford's view, if you like. The position then would be that Mr. Hungerford's views would be made public before he gives evidence in another committee, and I think it would be prejudicial to the interests of the railway to have that happen. May I point out also that this subject was brought up in parliament some three or four years ago. A Bill was introduced to go much farther than is proposed to-day. The Bill called for a physical amalgamation of the express companies and a physical amalgamation of the telegraph companies. I need not remind this committee what happened. Many of you were in parliament at that time. We all know the bills were withdrawn for very excellent reasons which appealed to the government of the day. I agree with Dr. Young. I believe it is outside the scope of this committee to discuss matters that necessarily apply to both roads, especially at a time when we have both railways appearing in another part of this parliament to discuss that very thing. I believe in a way the matter is sub judice and my suggestion is we do not press the management to answer questions which they will certainly be asked to answer in another inquiry in the course of a week or two, because I know that it would be embarrassing them, and after all it is a matter of government policy that is involved in the questions asked.

Mr. HEAPS: Mr. Chairman, I should like to say a word. When members of this committee get up and say other members are anxious to see deficits of \$42,000,000 on the railways each year, I think it behooves others who are inferred by the statement to be in favour of that to get up and say a word or two. I suggested this afternoon a method of saving approximately \$12,000,000 a year. I have not heard Mr. Walsh half so vociferous in trying to make a saving on interest and in other directions.

Mr. WALSH: I have it booked down here. I am going to support it when we come to that item.

Mr. HEAPS: So far we have not heard one word from Mr. Walsh in that direction. I want to say a word or two about the saving that would take place if amalgamation were brought about. Mr. Walsh said that nobody would be hurt.

Mr. WALSH: I did not suggest amalgamation.

Mr. HEAPS: Call it by any other name you like. An onion by any other name has the same smell and taste. The same thing applies to a pooling arrangement. A pooling arrangement or a co-operation arrangement is the same thing. It is a form of amalgamation. When we pooled the services between Toronto, Montreal and Ottawa it was not called amalgamation, it was called pooling. Do not let us fool the people by calling something pooling when it is really a form of amalgamation. I say this, when we are told that we can co-ordinate the two services into one service without any individual being hurt, I say it cannot be done. It is just like Mr. Walsh trying to teach his children that two and two are six. That cannot be done. Two and two are four. If you co-operate the two services men are going to be laid off.

Mr. WALSH: No.

Mr. HEAPS: Then if nobody is going to be laid off where is the saving going to come?

Mr. WALSH: They did it in England and no one was laid off.

Mr. HEAPS: You co-operate or you pool the services and a number of men are superannuated; they go on the superannuation fund. Perhaps men die. What is going to happen to the young men that come out of Mr. Walsh's school 18 or 19 years of age, looking for work?

Mr. WALSH: They will find it.

Mr. HEAPS: A lot of them are looking for work to-day. When you co-operate the two services of the country, I do not care what direction it is in, the fact is there will be so many less positions available for people who want work. If we do that we will be in exactly the same position in regard to the pooling arrangements from Montreal to Toronto and Montreal to Ottawa. When these services were pooled, what became of these men who went off the service in the area?

Mr. YOUNG: I am going to raise a point of order. I am going to take the same exception to what Mr. Heaps is saying, because he is discussing the same question. I think it is entirely outside the reference. I want to point out that I am going to raise the same point of order in regard to Mr. Walsh.

Mr. WALSH: Is that a point of order?

Mr. YOUNG: The same point of order.

Mr. WALSH: I am not speaking. I have not got the floor. You cannot raise a point of order on me; I have not got the floor. Mr. Heaps has the floor.

Mr. YOUNG: I must admit the hon. gentleman is sitting down at the moment. I was just going to say this; while there is here in this report something about co-operation, it is merely a report from the management of the Canadian National Railways to this committee on what has taken place in regard to the policy laid down by the parliament of Canada; that is all it is. They are not saying whether it is right or wrong. They are merely explaining to this committee just what improvements have taken place. Again I am going to say I do not think we should allow ourselves to get into the position of discussing the wider question. As the Minister has pointed out it will be discussed in another place altogether.

Mr. VIEN: There is a point of order before the chairman and it appears to have arisen from some of my remarks, which I think have been misconstrued, and I want to correct them. I do not know whether that is due to my lack of command of the English language or lack of ability to express my own thoughts. I think that the procedure that has been suggested by the honourable the minister is extremely wise. I agree with that policy and I am perfectly satisfied as to the procedure that he has outlined; but I want to point out that I was not advocating any policy, I was asking a question from the manager of the Canadian National Railways, and I believe that the question which I am asking is within the scope of our reference. It is, the amount of express matter—\$8,915,000. The management advises us that in accounting the expense with respect to rolling stock and the volume of that rolling stock, the expenses were \$4,893,000, in the year 1937. My question to the management was this, is there any possibility of reducing this expense; and I think that question is certainly within the scope of the reference; and my friend Dr. Young has put in my mouth words that I did not use. I have not suggested any policy, I have been asking a question from the management; and that is that. As regards the procedure suggested by the honourable the minister I think it is very expedient that it should be adhered to and followed and I am perfectly satisfied with it.

The CHAIRMAN: The only question before the committee is this, that the management will furnish Mr. Vien with a report which he has asked for in so far as express is concerned—

Mr. VIEN: And the amount of the mail—

The CHAIRMAN: No, mail concerns two departments and it is agreed to let that drop. As far as the third question is concerned of pooling services—not amalgamation—of pooling services—which was meant by Mr. Vien—that I think is a fair question for us to discuss here. But we went far afield, as you have noticed, and I do not think we have any business to discuss here amalgamation or anything of that kind.

Mr. HEAPS: If you are going to discuss pooling will you tell me how far pooling is removed from amalgamation?

Mr. WALSH: As far as day is from night.

Mr. HEAPS: Never mind, Mr. Walsh, I am asking the Chairman.

The CHAIRMAN: I mentioned pooling. I think there is a vast difference.

Mr. VIEN: Not only that, but there is a statute on our statute books which compels the two railways to pool as much as possible. It is a statute of this parliament and I am entitled in this committee to ask from the management an explanation as to how far pooling has been carried out and to what extent, and to what further extent it can be carried out; and I think the management understands the scope of my question; and I am not urging any policy, I am asking a question. Now, there is one further point on which I would be glad to have some information, and that is the first question which I asked of Mr. Cooper; I asked whether it would be possible to break down the figures in respect to expenses in the same way as they are broken down with respect to revenue.

The CHAIRMAN: And the answer that he gave was that it involved a great deal of work and research, and if you insist on it they are prepared to do it.

Mr. VIEN: I did not get the answer, is there any great difficulty, Mr. Cooper?

Mr. HUNGERFORD: I think we will be able to give you a statement that will answer your purposes.

Mr. McKINNON: In view of the fact that co-operation of services is provided for in the statute I presume that the Canadian National Railway has done the best it could to co-operate with the other railways to see that it was carried out to as large an extent as possible.

Mr. HUNGERFORD: We have done a lot in that direction.

Mr. McKINNON: Following up that question, there has been a good deal done by way of co-operation of services on some of the runs—

Mr. HUNGERFORD: That would apply to the passenger services.

Mr. McKINNON: And where that was applied naturally there would be a number of employees displaced, wouldn't there?

Mr. HUNGERFORD: Yes.

Mr. McKINNON: How many employees have been displaced since you adopted that policy?

Mr. HUNGERFORD: I do not know that I could tell you off-hand.

Mr. ARMSTRONG: The figure is somewhere between 135 and 165.

Mr. McKINNON: They would be employees of the Canadian National?

Mr. ARMSTRONG: No, of both services. It is not divided as between Canadian National and Canadian Pacific.

Mr. McKINNON: There has been no provision made to compensate these people in any way, shape or form for being turned out of the service?

Mr. ARMSTRONG: The people who have been dismissed? No.

Mr. HUNGERFORD: I think a little explanation is necessary there in order for you to grasp the significance of the situation. In connection with the pooling that has been done in relation to passenger service, the passenger service is

always manned by the senior men. They select the passenger service, and they have the right to do so by virtue of their seniority in the service. When they are displaced through a pooling arrangement such as has taken place, they exercise their seniority rights and take the next best job; and, of course, that goes on till a junior man is pushed out at the bottom of the list. For that reason it is pretty hard to identify the individuals affected.

Hon. Mr. STEWART: Would it be correct to assume that some of these 135 who were forced out and compelled to take inferior positions have through the course of time and promotions in the ordinary course got back to the same standing, some of them, as they had before they were forced out?

Mr. HUNGERFORD: I think it is very doubtful. A certain number of men have been dropped, but it is smaller than has been mentioned here to-day.

Mr. HEAPS: However that may be the fact remains that 135 men were pushed out of the service as the result of this pooling arrangement. That means, does it not, that there are 135 jobs less to-day than there were at the time when the pooling arrangement went into effect?

Mr. HUNGERFORD: I suppose that is substantially the case. Of course, it is affected by the total amount of traffic, whether the volume of traffic goes up or comes down.

Mr. HEAPS: But the fact is that as the result of the arrangement you had 135 people laid off, and that means that there are 135 less positions than there would have been had there been no arrangement.

Mr. HUNGERFORD: That is it.

The CHAIRMAN: Are there any further questions? If not, we will proceed to maintenance of way and structures expenses. Are there any questions? Or, do you want me to read the details?

Hon. Mr. STEWART: Was there any contribution by the unemployment relief appropriations involved in that expenditure?

Mr. HUNGERFORD: Not that I know of.

Mr. ARMSTRONG: Not this year.

The CHAIRMAN: Then, maintenance of equipment expenses? Shall the item carry? Carried.

Traffic expenses, page 16. Carried.

Transportation expenses.

Mr. HEAPS: There is one point I thought I might raise at this juncture which occurred to me. The railways have been running excursions at very low rates for some time now. I think they were inaugurated a number of years ago more or less as an experiment and evidently the experiment has been fairly successful, because the railways are continuing these low rates at fairly frequent intervals. I notice that recently there has been a tendency on the part of the railways to increase these low fares compared to what they were a few years ago. Could we have an explanation as to why these low rates have been increased by 25 per cent? Was it because the cost of carrying the traffic was too heavy, or was it because they thought they were popular and the traffic could stand the raise in rates; or, was it because the rates were too low in the first place?

Mr. HUNGERFORD: It was simply the decision of the management largely based upon the fact that expenditures were going up, wages had gone up, the cost of materials had increased, and we thought that this class of traffic would stand that very small increase.

Mr. HEAPS: Has it been profitable during the years these excursions have been in operation?

Mr. HUNGERFORD: On the whole I think so. Yes. We find that we cannot run these excursions too frequently and get sufficient patronage to make them pay, but experience has shown that we can run them at certain intervals.

Mr. HEAPS: May I ask a question arising out of that question? On the longer runs, say such as that between Ottawa and Toronto, you have a low rate; would it not be possible for the railways to provide say sleeping car accommodation on those runs so as to give people who want to use them still more comfort?

Mr. HUNGERFORD: There is provision for that, but the base rate is a little bit higher if they want to use the sleeping car.

Mr. HEAPS: Do you mean to say that if a person wanted to take an excursion between Ottawa and Toronto that he would be allowed to buy sleeping car accommodation on those tickets?

Mr. HUNGERFORD: Yes, but instead of paying a cent a mile—or, it is a little more than a cent now—under those conditions he would be charged a cent and a half a mile in standard sleepers.

Mr. HEAPS: That makes a big increase in the cost of transportation. I am just wondering if perhaps in that way the railways might not be able to use a lot of the equipment which is now probably lying idle, and by using that provide sleeping car accommodation for those who wanted it on these longer journeys.

Mr. HUNGERFORD: We haven't very much sleeping car equipment idle.

Mr. HEAPS: How about the tourist cars, you still have them?

Mr. HUNGERFORD: Yes, they are mostly on regular runs.

Mr. VIEN: Can we go back to maintenance of way and structures expenses—have we passed that?

The CHAIRMAN: We are now on transportation expenses.

Mr. VIEN: I suppose you won't object—

The CHAIRMAN: No, no, go ahead.

Mr. VIEN: What I had in mind to suggest in respect to maintenance of way and structures was whether or not that would be the appropriate item on which to ask the management what they intend doing with the Montreal terminal. In 1929 an Act of parliament was passed authorizing the Canadian National Railways—the Minister of Finance was authorized to guarantee a bond issue by the Canadian National Railways up to an amount of \$50,000,000. May I say that I do not intend to be as patient about waiting for a reply to this question as I have been with respect to the other questions which I have put; for I think this an appropriate place at which to urge that a city of the size of Montreal which is the headquarters of the Canadian National Railways, and the Canadian National Railways themselves are the largest railway system in Canada and at its headquarters it should have better accommodation than the accommodation that they have at the present time for passengers. I do not believe that anybody would contend Bonaventure station is an adequate facility for the passenger service of the Canadian National Railways at Montreal. Furthermore, I believe that everybody will bear with me if I suggest that no city of much smaller size than Montreal would tolerate conditions such as have been created in the very centre of the city by the digging of a hole which has been left unfilled for the last ten years. We have spent I understand \$16,000,000 to \$17,000,000 to acquire the land and excavate, to build a bridge over Dorchester street and to prepare the railway facilities from the Victoria bridge to the tunnel terminal. I would ask if we can look forward to some favourable answer in the near future? My reason for asking that is because I believe that the patience of the citizens of Montreal—and 29,000 of them are resident in my riding—is about at its limit, and I would urge that

immediate attention be given to this very important question. It is important not only from the standpoint of the city of Montreal, of which I am a citizen, but also for the Canadian National Railway system and as well for the public of Canada at large.

Mr. WALSH: Mr. Chairman, that is a very wide question and there are others interested. Probably we had better defer discussion and duly advise members of parliament such as the member for St. Henri, the Honourable Mr. Rinfret and Mr. Cardin—who vigorously discussed this question during the recent by-election—and invite their presence so that they can take part in the discussion and give us the benefit of their views as to how this might be done.

Mr. HEAPS: I have always been in favour of having the Montreal terminal completed. I think members of the committee will recall that I asked a good many questions as to how much it would cost to complete this terminal. We were told last year I think that it would probably cost between \$5,000,000 and \$6,000,000. I do not know whether there has been any change in the government policy in regard to that. What I can't understand is that for a number of years we have stood still, and the government has always opposed the completion of this terminal there.

Mr. VIEN: I do not believe that my friend is accurate, except under the old regime. I speak of the municipal regime.

Mr. HEAPS: I am speaking of the municipal regime.

Mr. VIEN: Under the regime of Mr. Camilien Houde I know that the municipal authorities for reasons unknown to me objected to the scheme. They wanted a different scheme to be adopted. I am not taking exception to the views that they then expressed; but after a very long dickering, from 1926 or 1927 for two or three years, the municipal authorities, the Harbour Board, the Board of Trade and other interested parties raised considerable objections to the scheme urged that there should be a terminal station at the tunnel. As a matter of fact, other people suggested that we should use the Windsor station for west and southbound trains and the Place Viger for east and northbound trains. But after due consideration the Minister of Railways of the time, the Hon. Mr. Dunning, with the approval of the Board of Management of the Canadian National Railways, brought down in parliament a scheme which provided for the construction of a terminal station at the tunnel, and parliament enabled the Canadian National Railways to carry on. Therefore, the objections of the municipal council were brushed aside by parliament in 1929, when parliament enacted the Canadian National Railways Montreal Terminals Act. Up to there two or three years were lost due to the dickering between the interested parties. But since 1929 this has been brushed aside and an enabling Act is now on the statute books; and the Canadian National Railway Company can issue its bonds and the government is authorized to guarantee them to carry out the project. I realize that the initial project was extremely ambitious. It was to cost at least \$50,000,000 and probably \$70,000,000 or \$80,000,000. I understand that this project has now been revised and that it would cost from \$10,000,000 or \$12,000,000 to \$15,000,000 to provide the Canadian National Railway with adequate terminal facilities and the City of Montreal with a terminal that would be an honourable monument for the city and for the railway system. Therefore I, as a member for Montreal, strongly urge that something should be done to correct an intolerable situation.

Mr. HEAPS: Just one word there, not in answer to but to add to what Colonel Vien has said. I happened to be a member of the committee at the time,—as other members were,—when the matter went through this committee. The reason why the committee approved of the plan in spite of the opposition

of some of the members from the city of Montreal was the fact that we had as consulting engineer at that time probably one of the most eminent engineers in the whole world on the question of railway terminals.

Mr. VIEN: Mr. Palmer.

Mr. HEAPS: Yes. I think we all felt that in a matter of this kind we should be guided not by what probably some aldermen of Montreal thought was desirable for his own particular ward interests, but by what an eminent engineer of world repute suggested. We thought we could be safely guided by him. I was guided by the plans and details which the engineer submitted to this committee. Of course, when 1931 came around and we had a change of government and a slump, of course the thing was stopped.

Hon. Mr. STEWART: The slump came first.

Mr. HEAPS: The slump came afterwards. The slump came first, yes. However, Mr. Chairman, the work was stopped and I was sorry to see it stopped. I would be quite in favour of the government undertaking work of that character as an unemployment project. I believe that money is going to be spent for public works, and I do not think they could do anything better than to undertake work of this character which would provide a useful kind of employment at least for mechanics and artisans in the Montreal area. Personally, after having heard this afternoon all this talk of how to save money, it comes almost as a shock to me to find those who have been advocating the saving of money for the Canadian National Railways now getting up at the end of the afternoon session and saying we should spend about \$15,000,000.

Mr. VIEN: It is a capital expenditure that will produce revenue.

Mr. HEAPS: Of course, I doubt very much if the expenditure of even the \$6,000,000 for which it was stated we could probably finish the terminal for and put it into reasonable shape for a number of years—I doubt whether that amount of money will, for the time being, unless there is an improvement in the economic conditions in the country, be reimbursed. But I do feel that the present C.N.R. terminals in Montreal are at least a disgrace not merely to Montreal but even to Rivière-du-Loup. If this had been in Rivière-du-Loup we might have heard a little more about it than we have under the present circumstances. But if the government will undertake a project of that character, particularly some plan of providing employment, and look upon it as an unemployment measure, I think it will have the support of every member of the house.

Mr. YOUNG: I am glad to support the suggestion made by Mr. Vien. I visit Montreal frequently, and I think everyone would agree that the facilities there are entirely inadequate. I feel this, Mr. Chairman, that in times such as we have now the government and the railways should spend whatever will be necessary to construct useful work; and surely the building of a terminal in Montreal and other points that I might mention would come under that category. I remember very well being a member of the Railway Committee, and in this very room, where this whole set-up was placed before us. The engineers were here for a week explaining the details of that plan; and after it was explained and those who opposed it were here, it was decided to go ahead with it; and for some reason or another, it was stopped at one point. Surely in times of depression such as we have now, there is a useful and necessary work which could be gone ahead with, and which, I believe, would be a paying investment in the long run. When I think of all the men that we have who have been out of work for many, many long years, I do suggest to the management of the Canadian National Railways that this certainly would be an opportune time to construct that work—and at other points too, where similar conditions would warrant it.

The CHAIRMAN: Well, as you all know, gentlemen, I think the government is fully seized of the situation; and I think, if it is the consensus of opinion of this committee, we can make a recommendation to that effect in our report.

Mr. HEAPS: Perhaps the minister might be able to give us some information on that question too.

The CHAIRMAN: He does not dare.

Hon. Mr. STEWART: Send for the other ministers.

The CHAIRMAN: Are there any other questions?

Hon. Mr. HOWE: Mr. Chairman, I may say that this is an exceedingly difficult question. We started a very large project in the boom days. The pressure of the government on the management is all for cutting down. We have the expenditures that we have made in regard to the maintenance of way that we used as an unemployment relief project, and we applied it to the other railway as well; I think it was a very useful project. We have spent quite a capital sum in replacing rolling stock which was badly needed to handle the traffic that we had last year and which will be perhaps inadequate to handle the big wheat crop, if we happen to get it this year, due to the fact of these reduced rolling stock requirements we have to meet the demand. The directors have been exceedingly careful about spending money either on operating or on capital works. Now whether, as the type of project that we had on maintenance of way in 1935—the fall of 1935 and 1936—this plan or project can be worked out for this terminal is a matter that is engaging the attention of the government now. But I think that we can hardly pass a vote of censure on the directors of our railway for having deferred this project. Other projects have been deferred. Every one here knows of projects that have been deferred simply because the earning statement is so bad. If we could ever see a return—this is one project that was started and is an eye-sore to Montreal. It is required in Montreal for terminal purposes and it must be built some day. But I hope this committee will not press the government or the railway too hard as to just exactly when they might build this, because I assure you the government is just as anxious about the situation there as this railway is. If possible, we would build this year to remove that one serious source of complaint.

Hon. Mr. STEWART: Keep it until the next election.

Hon. Mr. HOWE: That is all right.

Mr. HOWDEN: I would like to suggest to the minister that the Canadian National Railways is under a continuous disadvantage in having a trans-continental terminal like the Bonaventure station in Montreal. It is a blackeye to the system, as compared with other terminals of big railway companies elsewhere. I think it gives the travelling public a very bad impression of the railway before they ever get on a train at all.

Mr. VIEN: I know, as a matter of fact, Mr. Chairman, that a great number of people told me that they did not like to leave or arrive by the Bonaventure station, and I am quite sure the management is aware of that.

Mr. HEAPS: May I ask the minister not that he answer now, but would he not see that the government take this into consideration more as an unemployment project or public works project?

Hon. Mr. HOWE: I will pass your suggestion on to them.

Mr. HEAPS: It has been done not in this country but in other places. We have had buildings erected in this country as public works projects for the purpose of providing work for the unemployed; bridges have been erected in cities; buildings have been put up. In Winnipeg we had a sewer scheme as a public works project to provide employment and whilst I can see it perhaps might not be the correct proceeding in some ways to do something for a railway which is a utility and supposed to be a public project, to put up to the railway a scheme to provide employment, I think under the circumstances, in the situation we are in, it would be entirely warranted for the government to undertake the completion of the terminal in Montreal as an unemployment project.

The CHAIRMAN: Are there any further questions on transportation expenses? If not, it is carried.

(Carried)

The CHAIRMAN: Miscellaneous operating expenses. You have already gone through that.

(Carried)

The CHAIRMAN: General expenses.

Mr. WALSH: What is referred to there as relief department expenses, \$27,000?

Mr. COOPER: It is a payment which the railway makes to the Grand Trunk Insurance and Provident Society of \$12,500 and \$15,000 to the Intercolonial Relief and Insurance Association.

Mr. WALSH: On the question of pensions, someone gave me the information that there are certain pensions or annuities or retiring allowances being paid to retiring officials of the Canadian National Railways that run up to the neighbourhood of \$10,000 a year and in some cases more. I said that that seemed to me to be quite erroneous and impossible; but I wanted to ask the management if such a thing could be possible as a retiring allowance as far as the Canadian National Railways is concerned. Are there any persons getting \$10,000 or more a year as a retiring allowance?

Mr. HUNGERFORD: The only retirements coming within that category are those under The Grand Trunk and Intercolonial superannuation funds. Strictly under the rules some of them would have been entitled to more but they compromised on that amount.

Mr. HOWDEN: I would like a word of detail in connection with the item under traffic expenses, colonization, agriculture and natural resources, \$149,000. I would like some detail as to the activities of the railway with regard to colonization. Just what does that mean?

The CHAIRMAN: Do you want a report?

Mr. HOWDEN: I do not want the minute expenses, I just wondered what the activities were in regard to colonization because I understood we were not having any colonization.

Mr. HUNGERFORD: Oh, yes, we have. Our general colonization and agricultural department does all that work. They are developing settlements and improving farms, and all of those activities are being carried on.

Mr. HOWDEN: Is the railway colonizing any land at the present time?

Mr. HUNGERFORD: Yes.

The CHAIRMAN: Gentlemen, shall we sit to-morrow at 11 o'clock?

Mr. HEAPS: Yes.

The CHAIRMAN: The committee stands adjourned until to-morrow at 11 o'clock.

(At 6 p.m. the committee adjourned until 11 a.m. Wednesday, April 27, 1938.)



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SESSION 1938

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

WEDNESDAY, APRIL 27, 1938



WITNESSES:

Mr. S. J. Hungerford, Chairman, Board of Directors, and President, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. T. H. Cooper, Comptroller, Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, and Mr. D. R. MacLaren, Assistant to Vice-President, Trans-Canada Air Lines, Canadian National Railways, Montreal; Dr. W. C. Clark, Deputy Minister of Finance and Chairman, Canadian National Railways Securities Trust, Ottawa.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1938



REPORT TO THE HOUSE

THURSDAY, April 28, 1938.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its

SECOND REPORT

Your Committee has considered the following Items of the Estimates referred to the Committee on March 29, and approves of same, viz:—

Vote 427, Maritime Freight Rates Act, Canadian National Railways, Eastern Lines, 20 per cent reduction in tolls, \$2,278,000;

Vote 428, Maritime Freight Rates Act, railways other than Canadian National Railways, 20 per cent reduction in tolls, \$860,000;

Vote 437, Prince Edward Island Car Ferry and Terminals, capital, \$35,000;

Vote 438, Canadian National (West Indies) Steamships, Limited, capital, \$24,000.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, March 27, 1938.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 a.m., the Chairman, Sir Eugene Fiset presiding.

Members present: Messrs. Bothwell, Emmerson, Ferland, Fiset (Sir Eugene), Hanson, Heaps, Howard, Howden, Howe, McKinnon (*Kenora-Rainy River*), McLarty, Stewart, Walsh, Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport and officials of the Canadian National Railways, including Mr. S. J. Hungerford, President, Mr. T. H. Cooper, Comptroller, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, and Mr. D. R. MacLaren, Assistant to Vice-President in charge of operations, Trans-Canada Air Lines; Mr. O. A. Matthews of George A. Touche & Company, Auditors of C.N.R. accounts, and Mr. A. V. Franklin, Railway Auditor, Department of Finance.

The Annual Report of the Canadian National Railway System was further considered and adopted.

At 1 o'clock the committee adjourned until 4 p.m.

AFTERNOON SITTING

The Committee resumed at 4 o'clock and proceeded to the consideration of the Annual Report of the Canadian National Railways Securities Trust for the year ended December 31, 1937.

Dr. W. C. Clark, Deputy Minister of Finance and Chairman of the Securities Trust was called and examined on the above Report.

Witness retired and the Report adopted.

The Annual Report of the Canadian National (West Indies) Steamships, Limited for the year 1937 was considered and adopted.

The Annual Report of Trans-Canada Air Lines was considered and adopted.

The Committee then considered Items 427, 428, 437 and 438 of the Main Estimates, referred to the Committee on March 29. The said Estimates were adopted and the Chairman authorized to report same to the House.

On motion of Mr. Howden,

Resolved,—That the Chairman be authorized to prepare a draft report to be submitted to the Committee at its next sitting.

The Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

April 27, 1938.

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Sir Eugene Fiset, presided.

The CHAIRMAN: We have a quorum now.

Gentlemen, there are certain questions which were asked by Mr. Walsh yesterday. The answers to these have been prepared. Are you ready to hear them? Do you wish to have them read into the record?

Mr. WALSH: That would be all right.

Mr. ARMSTRONG: The first question asked by Mr. Walsh was with regard to hotels; capital cost to December 31, 1937 revenues, expenses, etc. Do you wish me to read the statement in detail, Mr. Chairman?

The CHAIRMAN: Yes, please.

Mr. ARMSTRONG: This statement reads

REVENUES, EXPENSES AND TAXES—HOTEL OPERATION YEAR ENDED DECEMBER 31, 1937

	Capital cost to Dec. 31, 1937	Revenues	Expenses	Taxes	Net
Chateau Laurier.. . . .	\$8,669,832 66	\$1,161,918 88	\$ 926,873 54	\$ 63,360 37	\$171,684 97
Nipigon Lodge.. . . .	Sold 1937	80 56	143 99	....	63 43
Prince Arthur.. . . .	1,185,504 98	157,827 39	127,345 77	5,622 98	24,858 64
Minaki Lodge.. . . .	1,089,834 37	46,569 67	45,589 50	163 00	817 17
Fort Garry.. . . .	2,904,267 50	349,756 20	342,633 91	23,642 31	16,520 02
Prince Edward.. . . .	522,606 94	61,276 87	77,319 00	3,727 07	19,769 20
Macdonald.. . . .	2,264,903 34	379,183 78	332,025 21	15,557 06	31,601 51
Jasper Park Lodge.. . .	2,627,070 05	268,484 81	237,959 59	4,311 05	26,214 17
Bessborough.. . . .	3,567,584 06	226,819 83	244,951 11	1,415 67	19,546 95
Pictou Lodge.. . . .	199,456 21	19,299 43	19,030 10	309 50	40 17
Nova Scotian.. . . .	2,447,745 50	295,322 10	277,021 20	10,807 41	7,493 49
C.N., Charlottetown.. . .	856,708 74	79,259 05	82,619 26	3,282 97	6,643 18
	\$26,335,514 35	\$3,045,798 57	\$2,713,512 18	\$132,199 39	\$200,087 00

Mr. HEAPS: I would like to ask a question arising out of the statement which has just been presented. I wonder if we could have the dates at which these hotels were built, or authorized to be built.

Mr. ARMSTRONG: We could give you the dates on which they were opened.

Mr. HEAPS: Take the case of the Vancouver hotel, that was authorized some years ago and it has not yet been opened. Give us the best you can.

The CHAIRMAN: Have you got that information here, Mr. Armstrong?

Mr. ARMSTRONG: Yes, we have. We will look that information up for you.

Mr. HEAPS: I thought you might give it while the information was on the record; I would like to have it go down in the record consecutively.

Mr. ARMSTRONG: Here is the statement Mr. Hungerford prepared in connection with the Vancouver hotel arrangement. Copies of this statement have been made for the use of members of the committee. I understand it is to be considered as a confidential document.

Mr. HUNGERFORD: As was stated yesterday this arrangement is not yet completed, this is not the final or formal execution.

Mr. HEAPS: I am sorry, we were not able to hear what Mr. Hungerford said.

Mr. HUNGERFORD: I said that this is not the formal execution, this arrangement has not been fully completed.

The CHAIRMAN: The statement is going to be handed to each member of the committee as a confidential document; is that satisfactory?

Mr. YOUNG: I suggest that it be handed to each member of the committee and that we look into the matter. There is nothing confidential about anything in it so far as I am concerned.

The CHAIRMAN: "Confidential" perhaps is the wrong word.

Mr. YOUNG: I think it is.

Hon. Mr. STEWART: Pending completion of the work it ought to be kept confidential.

Mr. WALSH: To go back to the statement read by Mr. Armstrong in connection with the hotels; that operating profit represents less than 1 per cent on the capital investment. Is that right?

Mr. ARMSTRONG: That is correct.

Mr. WALSH: I presume the capital expense in the first place was looked after through loans or advances or bonds or something of that nature.

Mr. ARMSTRONG: Right.

Mr. WALSH: And, is interest charged against each hotel in each instance?

Mr. ARMSTRONG: No, the interest on this amount appears in the funded debt of the Canadian National system.

Mr. WALSH: Then you cannot say that the hotel system of the Canadian National has made even 1 per cent.

Mr. ARMSTRONG: I think that I can say that they made a return of approximately 1 per cent on their capital during the year 1937.

Mr. WALSH: But without any interest on the funded indebtedness being charged against the operation of the hotels.

Mr. ARMSTRONG: That is quite true.

Mr. WALSH: Yes. If a private corporation were running these hotels they would show an operating deficit at the end of the year.

Mr. ARMSTRONG: Not an operating deficit, but an income deficit.

Mr. WALSH: Yes, an income deficit.

Mr. HEAPS: Which in effect means that the hotels did pay.

Mr. WALSH: No. You had a hotel at one time known as the Highland Inn up in Algonquin Park district; has that been disposed of?

Mr. ARMSTRONG: Yes, that has been disposed of.

Mr. WALSH: When was that sold?

Mr. COOPER: In the beginning of 1937.

Mr. WALSH: Did the company realize the amount of their investment when they sold that hotel?

Mr. COOPER: No.

Mr. WALSH: Were tenders called for the sale of that hotel or was it arranged through a private arrangement between the purchaser and the company?

Mr. COOPER: I believe it was advertised for sale and the best bid was accepted.

Mr. WALSH: There was more than one bid?

Mr. COOPER: I do not know about that. I am pretty clear in my recollection that the sale of the inn was advertised in the press; but as to whether more than one bid was received or not, I do not know.

Mr. HEAPS: What was the original cost of the hotel?

Mr. COOPER: It was \$171,000.

Mr. WALSH: What was the reasons which influenced the sale? Had it been a losing proposition previously?

Mr. HUNGERFORD: For a number of years it had not been operated by the railway company. It had been leased to a private individual, and the conditions of that lease as I remember it required the railway to maintain it and it involved some annual cost; and by disposing of the hotel we cut ourselves off from those losses.

Mr. WALSH: But I thought the hotels in the Algonquin Park and the Muskoka Lake district were rather paying propositions from the operating point of view. I am wondering why this hotel, whether this hotel could not have been developed into an asset rather than a liability.

Mr. HUNGERFORD: This was a very old hotel which had been bought or built by the Grand Trunk and the patronage had definitely declined to a point where there was a loss involved in its operation. While it was owned by the company it was operated under a lease, and it was finally sold for a comparatively small sum of money which represented an improvement of the company's position in view of the liabilities that we were facing. The structure was in very bad shape. If we had retained ownership we would have had to spend a lot of money on it and without any apparent chance of getting the money back.

Mr. HEAPS: Perhaps, Mr. Chairman, we could have the times at which these hotels were opened?

Mr. ARMSTRONG: Might I mention in connection with hotels, particularly in connection with Jasper Park Lodge, that although we have not made a return on the investment there is a collateral advantage in having such a hotel to the passenger traffic revenue which we get to that particular point.

The CHAIRMAN: Could you give the opening dates at this time?

Mr. ARMSTRONG: I can give you the dates on which we opened them, if that would be sufficient for your purpose?

Mr. HEAPS: All right, let us have the dates on which they were opened.

Mr. ARMSTRONG: The dates of opening are as follows: The Canadian National at Charlottetown, in 1931—do you wish to have the day of the month?

Mr. HEAPS: No, just the year.

Mr. ARMSTRONG: The Nova Scotian at Halifax was opened in 1930; the Chateau Laurier at Ottawa in 1912; the Prince Arthur at Port Arthur in 1911; the Fort Garry at Winnipeg in 1913; the Prince Edward at Brandon in 1912; the Bessborough at Saskatoon in 1935.

Mr. McLARTY: In connection with the hotels—I have not had the advantage of hearing the preceding discussion—would it be possible for the committee to get a break-down—and I appreciate quite well that there are advantages apart from the apparent operation that either a profit or a loss, as the case may be, for each hotel—would it be possible to get a break-down of the various hotels showing us the loss or profit in each case?

The CHAIRMAN: That has already been placed on the record this morning.

Mr. McLARTY: I did not hear that, Mr. Chairman.

Mr. HEAPS: You should have been here at eleven o'clock.

Mr. ARMSTRONG: The Bessborough at Saskatoon was opened in 1935; the Macdonald at Edmonton was opened in 1915; Jasper Park Lodge was opened in 1923; Pictou Lodge was opened in 1926; Highland Inn Camp, so far as the railway was concerned, was opened in 1913; Nipigon Lodge was opened in 1916; Minaki Lodge was opened in 1923; and the Grand Beach at Grand Beach, Manitoba, was opened in 1920.

Mr. HEAPS: That is all of it?

Mr. ARMSTRONG: These are the dates at which the railway opened these hotels.

Mr. HEAPS: What I was trying to get at, Mr. Chairman, was the fact most of the hotels came with the railways themselves when they were taken over by the government in 1923.

Mr. ARMSTRONG: A large number of them did.

Mr. HEAPS: Of course, one or two have been built in comparatively recent times, and most of them are the smaller ones—with the exception of the one now under construction at Vancouver. You have a liability there acquired in the same way as the liability which came to us with the railways.

The CHAIRMAN: It is inherited.

Mr. HEAPS: Yes, and in some respects unfortunately.

The CHAIRMAN: Is that all?

Mr. WALSH: About the Vancouver hotel; I presume the taxes have been paid on that hotel even during the time when it was not in operation; is that correct?

Mr. HUNGERFORD: Yes.

Mr. WALSH: Was there any compromise arrangement between the city of Vancouver and the railway company in connection with these taxes, or was it on a straight assessment basis?

Mr. HUNGERFORD: There were negotiations carried on.

Mr. WALSH: And the taxes were arranged at what figure at that time?

The CHAIRMAN: It is rather awkward, Mr. Walsh, because there is no final agreement, negotiations have not been completed.

Mr. WALSH: What I am referring to is up to the present time. If my information is correct the railway company agreed with the city of Vancouver on a tax of \$50,000 a year, and that is the tax that has been paid. I was wondering if that information is correct or otherwise?

Mr. ARMSTRONG: We shall be glad to file a statement showing what has been paid and what will be paid in that respect.

Mr. WALSH: I was wondering about it, about what the situation would be now that the hotel is about to be completed and put into operation; and as to what the tax will be when the hotel is completed as compared with this amount of \$50,000 tax that has been paid at the present time.

Mr. ARMSTRONG: We could give you that information this afternoon.

Mr. WALSH: Could I ask the chairman if we will be honoured with the presence of the Minister of Transport some time during the course of the day?

The CHAIRMAN: I hope so.

Mr. WALSH: Because I asked that question in connection with the announcement that was made.

The CHAIRMAN: We will come back to that any time you like.

Mr. WALSH: He has been advised of that question, has he?

Mr. SMART: What question?

Mr. WALSH: In connection with the announcement made by the Minister of National Defence in Vancouver. I just wanted to find out why the Minister of National Defence is presuming to take the place of the President of the Canadian National Railways in a matter of this nature; because, after all, we have got to keep the Canadian National Railways running on a business-like basis, and not as a political institution.

Mr. HEAPS: It is so nice to hear that from Mr. Walsh.

The CHAIRMAN: It was nicely said. I admire the style as well as the voice.

Mr. McLARTY: Just in connection with my previous question, do I understand it is the intention to give a breakdown of the various hotels in the Canadian National System—their operating profits and losses?

The CHAIRMAN: Yes. The full details are there on record at the present time. Is there anything else, gentlemen?

Mr. ARMSTRONG: There was another question asked by Mr. Vien. That was in connection with express.

Mr. YOUNG: I want to ask one question about hotels before we leave that. I do not intend to ask anything further at the moment except this one thing. Who originated this proposal with regard to the Vancouver hotel—which company?

Mr. HUNGERFORD: It had developed out of a lot of discussion back and forth extending over months.

Mr. YOUNG: One company or the other must have started the negotiations.

Mr. HEAPS: Mr. Chairman, was it not in the original agreement between the city of Vancouver and the Canadian National System or the old Canadian Northern when they changed the site of the station that a new hotel would be built by the Canadian National System in Vancouver?

Mr. HUNGERFORD: There was an old obligation dating back to about 1912.

Mr. YOUNG: I asked a question which Mr. Heaps has sidetracked. I would ask to have it answered.

Mr. HEAPS: No, I did not sidetrack it.

The CHAIRMAN: Well, Mr. Young has the floor.

Mr. YOUNG: I am asking who originated this particular proposal—not who originated something away back twenty years ago.

The CHAIRMAN: That is what Mr. Hungerford is trying to answer.

Mr. HUNGERFORD: What was your question?

Mr. YOUNG: Which company originated the proposal about which we have a statement from you this morning?

Mr. HUNGERFORD: I really do not know that, because it has been the subject of discussion off and on for a long time. But it was approached under the provisions of the Canadian National-Canadian Pacific Act to see what could be done in connection with it. Negotiations were carried on for a good many months. There were all kinds of proposals discussed, pro and con. Finally we reached this basis.

Mr. YOUNG: You could not say whether this proposal emanated from the Canadian Pacific or the Canadian National?

Mr. HUNGERFORD: No, I do not think I could.

Mr. WALSH: It originated, did it not, in that committee you have formed of representatives of the Canadian National and the Canadian Pacific on the subject of co-operation? Is not that where it originated?

Mr. HUNGERFORD: No; it has been the subject of discussion between the executives of the two companies over a considerable period of time. I do not know at the moment who suggested it first. It has been a problem before us for a long time.

Mr. WALSH: I want to say that I have just glanced through the document that you put before us, and I think it is a very good, business-like, reasonable arrangement. I think the management of the Canadian National are to be congratulated on their foresight for entering into an arrangement of this nature which will prove to be to the advantage of the Canadian National, and I feel

possibly to the advantage of the Canadian Pacific. It is in the public interest; and I think the Canadian National management has done well. That is how this document appeals to me.

Mr. HUNGERFORD: Well, it is mutual effort, Mr. Walsh.

The CHAIRMAN: Do you want to pursue your question, Dr. Young?

Mr. YOUNG: I take it that it is not known which company originated the proposal.

Mr. HUNGERFORD: The present proposal was approached by a long process of negotiations—proposals and counter-proposals, discussions and modifications of all kinds, as far as that is concerned.

Mr. ARMSTRONG: There was a question asked by Mr. Vien in regard to express. That information is not available; but if it is satisfactory to you we will have it prepared and give it to Mr. Vien.

The CHAIRMAN: He will be quite satisfied with that.

Mr. ARMSTRONG: There was another question.

The CHAIRMAN: Wait a minute. Do the other members of the committee want to have a copy of this report that is to be given to Mr. Vien?

Mr. YOUNG: Mr. Chairman, this is a committee.

The CHAIRMAN: Yes.

Mr. YOUNG: There is no one member of this committee that is entitled to any report or anything of the kind. It comes either to the committee or does not come at all.

The CHAIRMAN: I know. But many times in this committee we have decided by unanimous consent that certain information that was to be used only by one member could be furnished to him.

Mr. YOUNG: Why so?

The CHAIRMAN: Why so? Because it was asked for.

Mr. YOUNG: I am not asking for it for myself. I am asking for it for the record.

The CHAIRMAN: I have no objection. That is exactly what I am asking you. Do you want a copy of the report? I am quite satisfied. Then you will prepare this report, Mr. Armstrong,—a copy for each member of the committee.

Mr. ARMSTRONG: Yes. There is one further question by Mr. Vien on rates paid by the post office department to railways for carriage of mails. I will read it into the record, if that is satisfactory.

	Cents per mile
60 ft. R.P.O.	35
30 " "	20
60 " Baggage or Storage	36
30 " " " "	20
15 " " " "	13
7 " " " "	6½
3 " " " "	4

The term "R.P.O." as we call it means "railway post office."

Mr. HOWDEN: These rates apply to the mail carrying and the matter of the distribution of the mail is a matter that the post office takes care of?

Mr. ARMSTRONG: Yes.

Mr. YOUNG: From the point of view of the railway, are these rates reasonably satisfactory?

Mr. HUNGERFORD: That is a difficult question to answer because it very difficult to segregate the expense in connection with the service—very, very difficult indeed.

Mr. HEAPS: Is there any fixed contract between the post office and the railway companies in connection with the carrying of the mails?

Mr. HUNGERFORD: Contracts? Yes.

Mr. HEAPS: To be a little bit more precise, I mean do they take so much space and pay for it whether they use it or not?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: Then there must be some fixed arrangement?

Mr. HUNGERFORD: They arrange with us for a certain amount of space on certain trains and they pay us on the basis of the schedule.

Mr. HOWDEN: May I ask this question of the president: Has it at any time appeared that the mail is carried at a loss by the railway service?

Mr. HUNGERFORD: As I said before, that requires a very involved and difficult consideration.

Mr. HOWDEN: My purpose in asking that question is that I presume the railway service would cease carrying mail at a loss; that is all. It would not be fair to ask them to do so.

Mr. HEAPS: Have these rates remained stationary for any length of time?

Mr. HUNGERFORD: I do not think they have varied for some time. I think they have been in effect for several years.

Mr. HEAPS: Are these mutual arrangements as between the company and the post office department?

Mr. HUNGERFORD: No. These rates are fixed by the post office department.

Mr. HEAPS: Do they fix them or is it a mutual arrangement?

Mr. HUNGERFORD: No, it is not very mutual. I am just told by Mr. Armstrong that this scale of rates was established in 1922.

Mr. McKINNON: The operating costs of the railway have gone up considerably since that time, have they not?

Mr. HUNGERFORD: In some respects.

Mr. McKINNON: What might have been a good business deal at that time is a poor one to-day.

Hon. Mr. STEWART: They do not operate the cars.

Mr. McKINNON: I beg your pardon?

Hon. Mr. STEWART: They do not operate the cars. They are in charge of the postal employees.

Mr. McKINNON: But the railway operates the cars.

Hon. Mr. STEWART: No, the hauling of them. They do not pay for operating.

Mr. McKINNON: But they haul them.

Hon. Mr. STEWART: Yes; that is all.

The CHAIRMAN: Have you any other answers?

Mr. HUNGERFORD: Mr. Walsh asked a long list of questions. Mr. Vaughan is here. Perhaps he could satisfy him.

The CHAIRMAN: Mr. Stewart and Mr. Walsh both asked certain questions—Mr. Stewart at the first day's committee sitting and Mr. Walsh yesterday—with regard to coal. The management object to making certain information public, but Mr. Vaughan is here to explain the circumstances, if you want to press your questions now, Mr. Stewart. The same thing applies to Mr. Walsh, Mr. Vaughan.

Mr. VAUGHAN: I only got these questions about four-thirty yesterday afternoon, and I have not had much time to spend on them. But I think I can answer most of them. Many I have answered in writing; and the others, with

Mr. Walsh's permission, I will answer verbally—if you desire to go over the questions.

SERIES ONE

Question 1: What tonnage of Canadian National Railways fuel coal has been delivered at Chipman, N.B., for the years 1936 and 1937, and the first two months of 1938?

Answer:

Year	Tons
1936.....	45,878
1937.....	46,075
1938 (Jan. and Feb.).....	4,515

Question 4: What is the total cost per ton, all charges included, of fuel coal delivered at Chipman?

Answer:

Year	Lump	Slack
1936.....	\$4 00	\$2 25 to \$2 50
1937.....	4 00	2 25 to 2 40
1938 (Jan. and Feb.).....	4 00	2 25 to 2 40

SERIES TWO

Question 8: What tonnage of C.N.R. fuel coal has been moved over this spur?

Answer: 963,484 net tons. (Commencing in 1924 and to February 28-1938.)

SERIES THREE

Question 1: During the year 1936-37 and January and February 1938, what tonnage of fuel coal was supplied the Canadian National Railways, by months, from each of the following districts: (a) Maccan, (b) Springhill, (c) New Glasgow, (d) Other Nova Scotia districts.

Answer:

	Maccan	Springhill	New Glasgow	Other Nova Scotia dists.	Total
1936					
Total.....	45,525	140,978	172,383	63,027	421,913
1937					
Total.....	31,528	100,483	307,071	75,272	514,354
1938					
January-February.....	10,172	17,792	58,029	15,913	101,906
Waterborne					
1936.....	.....	.....	132,267	684,629	817,296
1937.....	.....	.....	132,295	693,212	825,507

SERIES THREE

Question 4: At what points in New Brunswick was the above-mentioned Nova Scotia coal used, and what tonnage of each? (1936-1937 2 months 1938).

Answer:

	1936	1937
Bathurst.....	.....	3,100
Campbellton.....	33,000	38,000
Moncton.....	56,000	77,000
Newcastle.....	7,000	10,000
Saint John.....	21,000	23,000
Edmundston.....	.....	4,000
Longley.....	.....	4,700
Napadogan.....	.....	2,700
Fredericton.....	2,000	2,800
	<hr/> 119,000	<hr/> 165,300

1938—2 months—Not yet available.

SERIES THREE

Question 8: How much C.N.R. fuel coal is purchased in Nova Scotia for use in: (a) New Brunswick; (b) Nova Scotia; (c) Quebec; (d) Ontario.

Answer:

RAILBORNE COAL		
	1936	1937
New Brunswick.. . . .	119,000	165,300
Nova Scotia.. . . .	285,991	322,354
Quebec.. . . .	31,000	26,700
Ontario.. . . .	nil	nil

WATERBORNE COAL		
New Brunswick.. . . .	nil	nil
Nova Scotia.. . . .	nil	nil
Quebec.. . . .	518,244	590,084
Ontario.. . . .	299,052	235,423

Partly estimated.

Question 9: How much New Brunswick coal is purchased for use in each of the above Provinces?

Answer:

	1936	1937
New Brunswick.. . . .	101,819	83,491
Nova Scotia.. . . .	nil	nil
Quebec.. . . .	28,719	33,276
Ontario.. . . .	nil	nil

Figures for January-February, 1938, not fully available.

The CHAIRMAN: Does that apply both to Mr. Stewart's questions and Mr. Walsh's?

Mr. VAUGHAN: I have not got Mr. Stewart's questions. I do not know what they are. I did not know this was coming up before the committee, but I can answer these questions in a general way. We do not like giving prices because we think it hampers our business. If a company that gives us a special price knows or assumes that that price is going to be made public, we do not run much chance of getting subsequent preferred prices; and inasmuch as our competitors' prices are not made public, we do not feel that it is fair to ask us to make the prices that we pay public. In this particular case, I think I know what is behind this. I am only assuming this, though. There is a certain individual in Chicago who is not in the coal business who has been trying to get a lot of information from us about our prices, and we have declined to give it to him; I think this is perhaps one way he is taking of getting it.

Hon. Mr. STEWART: I do not know the gentleman at all.

Mr. VAUGHAN: I may be wrong there.

Hon. Mr. STEWART: Mr. Chairman, is Mr. Vaughan referring to the questions I asked?

Mr. VAUGHAN: I am referring to this Kentucky question.

Hon. Mr. STEWART: That is in the questions that were put in on the first day?

Mr. VAUGHAN: These are the only questions I have. I have just seen them.

Hon. Mr. STEWART: They are my questions?

Mr. VAUGHAN: Yes.

Hon. Mr. STEWART: I do not know any man in Chicago. I am not in touch with him.

Mr. VAUGHAN: All I am saying is—

Hon. Mr. STEWART: I do not want the management to go any further than they think it is in the interest of the railway to go. But I would like all the information along that line that they feel they can give. I understand this mine is owned by the railway itself?

Mr. VAUGHAN: No.

Hon. Mr. STEWART: That is what I was told.

Mr. VAUGHAN: No. This coal is all bought. We buy from several companies. We use western Kentucky coal on our line from Chicago to Battle Creek. We do not use any of our own coal there at all. We buy this western Kentucky coal at a very low price and there is a low freight rate to our line in the vicinity of Chicago.

Hon. Mr. STEWART: I understood the minister to say when the question was brought up that he understood the mine was owned by the Canadian National Railway.

Mr. VAUGHAN: No, that is not so. We buy from several western Kentucky mines; not from one mine, but from several western Kentucky mines.

Mr. HEAPS: Do I understand you to say that you do not consider it advisable to make public the prices at which you purchase this coal?

Mr. VAUGHAN: We would prefer not to do so.

Mr. HEAPS: I think that is quite reasonable.

Mr. VAUGHAN: We have had a preferred price on this coal and several people have been trying to find out what we were paying for the coal; even some of the railways in the vicinity of Chicago have been trying to find out what we have been paying for the western Kentucky coal. We have been buying it at a very low price, we think.

Mr. HEAPS: I think under these circumstances Mr. Vaughan should not be asked to divulge the price at which they buy their coal.

The CHAIRMAN: I think Mr. Stewart is perfectly satisfied with that answer himself.

Hon. Mr. STEWART: I say I do not ask the management to give anything further than in their best judgment they think they can give in the interest of the Canadian National Railways.

Mr. HOWARD: Hear, hear.

Hon. Mr. STEWART: I would like him to go just as far as he can in that direction, and make a general statement about it.

Mr. YOUNG: You are satisfied, however, that you are really getting a very low price?

Mr. VAUGHAN: There is no doubt about that at all. Some people imagine we are paying a higher price than we are, and they say, "We are willing to offer you coal at the same price." And when their price comes in it does not approach the price we are paying. We cannot tell them we are buying coal from their neighbor at a lower price or what that price is. But I can say, in a general way, Mr. Stewart, that the coal used from Battle Creek West to Chicago is Western Kentucky coal. It is purchased from several mines. The coal used East of Battle Creek is our own coal.

Mr. HOWDEN: That coal is naturally used on American roads?

Mr. VAUGHAN: Yes, and some of our own coal on Canadian roads too.

The CHAIRMAN: Does the same answer apply to Mr. Walsh's question?

Mr. VAUGHAN: So far as prices go, yes. I do not think we should be asked to furnish any prices, because there are some mines with whom we have preferred

prices. But there is a good deal of information about tonnage which Mr. Walsh asked and which I prepared, and I have given some information here in regard to the average price. In fact, I could say that I have answered Question number one.

Question number two will be a difficult question for me to answer. We would have to get our records from Moncton on that, and I do not think there would be much accomplished in giving the information because all these cars are interchanged under the usual car service rules.

The same thing applies in connection with Question number three. Those cars would all be interchanged under regulations of the Car Demurrage Bureau.

So far as Question four is concerned, I have answered it in a general way, giving average prices.

In regard to Question number one, series two, I have not that information. We can get that if it is desirable. I think I can say in a general way that it was built fourteen years ago. My recollection is that it cost about \$195,000. I think that figure is approximately correct, although I would like to check it.

In regard to Question number two, I have not got the cost of maintenance of that spur. Under an agreement the Minto Coal Company were to maintain that spur, so that I expect the cost of maintenance to us has been very small. Then there was the cost of supplying a locomotive and van. I have not got that in detail. I believe there was an old locomotive and an old van supplied. That is all we supplied in connection with the operation of the spur. The Minto Coal Company provides the men to maintain and operate the spur.

The answer to Question number five is that the usual per diem charges apply in that connection as well.

Mr. WALSH: That is Question number four.

Mr. VAUGHAN: Yes, that is question number four. Question number five is: "How long are these cars allowed to be kept without charge?" Well, the answer is the same diem rule and demurrage rules govern.

Question number six is: "What agreement was made for shipping commercial coal over this spur when it was built?" I am not just sure what is meant by that question. We had an agreement with the Minto Coal Company that they would develop a very substantial commercial traffic over that line, but I presume what is meant there is whether or not other concerns, if they were served by that spur, would have the privilege of shipping over the spur on a fair basis. I have not got the original agreement here, but, as I recall it, that was provided for. A reasonable rate was to be charged, and if the shipper and the Minto Coal Company could not agree upon a rate, the rate would be fixed by the railway company. I have given the information here as to the tonnage that has been shipped over the spur since its construction. Canadian National Railway coal was 963,484 tons. There is another question, number nine, the cost of this coal at Hardwood Ridge. I do not think we should divulge that, any more than I would say that the same general prices apply as those referred to in Question four.

Mr. WALSH: Question four of series one.

Mr. VAUGHAN: Yes. In regard to Question number one of series three, I have put in an answer for that here.

Number two has reference to the price of Nova Scotia coal. If Mr. Walsh is agreeable, we will not put in that price because there are a great many factors involved in connection with the price of this coal.

Mr. WALSH: A considerable number of these mines referred to in Question two, series three, I presume are situated on lines of the Canadian National; is that right?

Mr. VAUGHAN: No. In regard to Question one, all these districts are located on the Canadian National lines.

Question two was: "What price is paid for Nova Scotia coal f.o.b. cars Canadian National tracks at above districts?" All that coal originates on our own lines.

Then the question was asked: "What is the cost per ton mile for hauling coal from Nova Scotia to New Brunswick points?" There are so many factors that have to be taken into account, grades and things of that kind, that it would be very difficult to arrive at what was the actual cost of moving that coal between specific points.

Question four was: "At what points in New Brunswick was the above mentioned Nova Scotia coal used, and what tonnage of each?" I have given that information here.

In regard to Question number six, I am not just clear what is wanted, Mr. Walsh.

Mr. WALSH: Question number five.

Mr. VAUGHAN: I can answer Question number five in this way, by saying that all the coal that we use in the Maritime provinces is rated. The coal from various mines has been subject to service tests, and a percentage rating of efficiency has been given in connection with each one of those coals; and in buying these coals we fix a price which we think is fair based on the efficiency of the coal and the length of haul to destination.

In regard to Question number seven, I do not think that is a question which we should become involved in, viz the question of wages between the operators and the miners. That is purely something for them to deal with themselves.

Question number eight: "How much Canadian National fuel coal is purchased in Nova Scotia for use in New Brunswick, Nova Scotia, Quebec and Ontario?" We have answered that question.

Question nine: "How much New Brunswick coal is purchased for use in the above provinces?" We have already answered that.

If there is any more information you would like, Mr. Walsh, I would be very glad to try to give it to you.

Mr. WALSH: In connection with the purchase of coal, Mr. Vaughan, the natural course to follow would be as far as possible to secure that coal on your own line?

Mr. VAUGHAN: Yes. We do endeavour to do that. There have been complaints from some of the mines in New Brunswick that we were not buying sufficient coal from their mines, but five of those mines are located on the line of the Canadian Pacific railway and only two on our line. Naturally we prefer to buy our coal from mines on our own line, although we do buy quite a little coal from mines on the Canadian Pacific Railway in New Brunswick. As a matter of fact, notwithstanding that most of these mines are located on the C.P.R. in New Brunswick, I think we use more of their coal than the C.P.R. uses.

In connection with these figures I should like to make an explanation: The New Brunswick mines were on strike for about three months from about the beginning of October last year and the strike was not settled until January. So they lost quite a substantial tonnage of coal.

Mr. WALSH: You have also to take into account in the purchase of coal, as in the purchase of other bulk material, the business you might derive, directly or indirectly, from the mines and organizations from which you make your purchases?

Mr. VAUGHAN: That is quite true.

Mr. WALSH: That might be a governing factor?

Mr. VAUGHAN: We need to get all the business we can, and, naturally, we patronize those companies which patronize us, provided, of course, their prices and quality are always satisfactory.

Mr. WALSH: You do not have to call for tenders every time you need a ton of coal?

Mr. VAUGHAN: No. What we do is to fix a price which we think is fair. When we call for tenders on coal we find the prices are very much higher than we can afford to pay, and we find it more satisfactory to fix ourselves what we think is a reasonable price.

Mr. WALSH: It might vary in the different provinces according to the location of the mines?

Mr. VAUGHAN: And the quality of the coal.

Mr. WALSH: And the amount of business you might derive from that particular section?

Mr. VAUGHAN: We would not give any company more money just on account of the business they gave us, but we might give them a preference in the tonnage.

Mr. HEAPS: Is the coal you get from your mine in Virginia of as good quality as the coal you get from Nova Scotia?

Mr. VAUGHAN: Yes, it is better quality.

Mr. HEAPS: Might I ask you, without divulging the cost to the company, what the difference in the price is between the Virginia coal and the Maritime coal?

Mr. VAUGHAN: The average difference in the price taking the cost at the mine?

Mr. HEAPS: The cost at the mine mouth.

Mr. VAUGHAN: In connection with the coal we produce ourselves and the cost of the coal in Nova Scotia there is an average difference of \$2.50 in the price.

Mr. HEAPS: Per ton?

Mr. VAUGHAN: Yes.

Mr. HEAPS: Have you ever been able to find out why there is that tremendous difference in the price of the coal at the mine mouth?

Mr. VAUGHAN: We have tried to find out the reason for that difference, and we have had a good many discussions with the operators in regard to prices. We have had a number of them submit their costs to us, their detailed operating costs, when we considered their prices too high; but I do not know why the cost of that coal in Nova Scotia is quite as high as it is. There are unusual conditions there; a good many of the mines are under the sea, and they have a lot of water to pump. They operate under difficult conditions.

Mr. HEAPS: I have never yet been able to discover why there is such a tremendous difference in the price. Some of the mines in the maritimes are very easy mines from which to get coal.

Mr. VAUGHAN: Yes, some of them are. There is quite a difference in the cost of mining in the various districts.

Mr. EMMERSON: Are not the mines in Nova Scotia deeper than the mines in West Virginia?

Mr. VAUGHAN: Some of them are. Take, for instance, down in Sydney, some of the mines are two or three miles under the sea.

Mr. HEAPS: But there are other mines which are not under the sea, such as the mines around Stellarton, and the coal is easily mined there.

Mr. VAUGHAN: Well, some of them have a thin seam, and, of course, that always makes for difficult and expensive operation.

Mr. HEAPS: But you still cannot tell us why there should be that tremendous difference of \$2 per ton?

Mr. VAUGHAN: No. I have asked the operators in a good many cases to try to solve that problem, but they have not been able to do it.

Mr. WALSH: To what extent does the wage problem enter into that?

Mr. HEAPS: The wages in the States are higher than they are here.

Mr. VAUGHAN: Yes, I think so.

Mr. WALSH: What about climatic conditions?

Mr. VAUGHAN: There is not very much difference in the climatic conditions. Our mines are located in Ohio just across the river from Wheeling, West Virginia.

Mr. HEAPS: We have asked that question many times as to the difference in the price which you pay, and we have never yet been able to ascertain it.

Mr. WALSH: You made an analysis of the cost in West Virginia and Ohio, and you have the same information from Nova Scotia; just where did you find the radical difference?

Mr. VAUGHAN: We always had the explanation from the operators in Nova Scotia as to the difficult conditions under which they mined their coal, and they have given us in some cases their costs. For instance, their power in some cases costs them a lot of money down there. I do not know why, but it does. At any rate, we have gone over that situation with them on many occasions, and I have compared the detailed cost of mining in the States with Nova Scotia, Alberta and elsewhere. Very few of them, at any rate, seem to be making any money in Nova Scotia or New Brunswick.

Mr. WALSH: Despite the fact that they are getting \$2 more per ton, are they making money in the mines there?

Mr. VAUGHAN: There are very few mines in the United States which are making money to-day. As you know, there was a price fixed by the United States government under their Fuel Control last fall. It only lasted about sixty days. During that regime the price went up, but as soon as that was taken off the price went back again, so that I think a good many of the mines in the States are not getting the cost of operation out of their product to-day.

Mr. HEAPS: In regard to the mines which the railway owns, they are not losing anything there. You obtain coal from mines on the other side of the Ohio river, and you are not losing any money there.

Mr. VAUGHAN: No, we are not. We are able to produce coal cheaper than we can purchase it for elsewhere.

Mr. HOWDEN: What is the approximate differential?

Mr. VAUGHAN: Well, I would answer that this way. The price fixed by the fuel controller up until a month or two ago, for coal mined in our district was \$2.15 a ton, and our cost runs from 30 to 40 cents a ton cheaper than that, after everything is taken into account such as interest, depreciation, depletion and other factors entering into operation.

The CHAIRMAN: Is that all, Mr. Walsh? I have handed to the reporter the written answers so they will appear on the record.

Mr. EMMERSON: May I ask the management a question? On page 15 maintenance of equipment expenses, the item in regard to the repairs on steam locomotives and other locomotives, freight carrying cars and passenger cars appears. I should like to have a comparative statement of the number of men employed in the locomotive department and in the repair shops and in the car shops from 1929 down to 1937, in the different shops on the system.

Mr. ARMSTRONG: Do you require it for each shop or the total for the system?

Mr. EMMERSON: Each shop.

Mr. ARMSTRONG: We have not the information available here. We can only give it to you in the total for the shops. If we have to obtain it for you for each separate shop, we can do that.

Mr. EMMERSON: What you should say here is that in 1937 the employment of men in the car shops on the system was about 78 per cent of what it was in 1929 and in your locomotive shops 90 per cent. It is not possible to get the average in every shop?

Mr. ARMSTRONG: It would have to be the average number of employees over the year. I assume that is what you require?

Mr. EMMERSON: Yes.

Mr. HUNGERFORD: We can give you it in either one of two ways, the average number of employees throughout the year or the number of employees at any particular time in the year. For instance, December 31st—

Mr. EMMERSON: The average is what we want over the year.

The CHAIRMAN: The average for the year?

Mr. EMMERSON: Yes.

Mr. ARMSTRONG: That is for the main shops only, the larger shops.

Mr. EMMERSON: We will say London, Stratford, Montreal.

Mr. HANSON: Mr. Emmerson has asked for Montreal. When you are preparing that statement I should like to get it for the main shops west of Montreal.

Mr. EMMERSON: The whole system.

Mr. ARMSTRONG: All of the main shops of the system in Canada.

The CHAIRMAN: That will be prepared. Mr. Walsh, the Minister is here; if you want to fight with him go ahead.

Mr. WALSH: Is it necessary to repeat the question?

The CHAIRMAN: Yes.

Mr. WALSH: The point raised yesterday was in connection with the opening of the hotel in Vancouver. During the course of last year announcement was made in the city of Vancouver by the Minister of National Defence that the Canadian National Railway board had under construction the hotel that had been under construction since 1926 and that it would be opened for business in 1939. I raised the point yesterday as to why the Minister of National Defence, despite the fact that he is a member for one of the Vancouver seats, who occupies his attention in national defence, should be the instrument in making such an important announcement which in the usual course of events should be made—if the Canadian National Railway board of directors are an independent body, as they should be, and that is part of their work and part of their development—by the board of directors. I was wondering why that announcement did not come, as it would do in an ordinary business corporation, from the president or general manager of the corporation concerned and not from the Minister.

Hon. Mr. HOWE: One of the directors asked me the same question officially. The circumstances are these. As you know, we have had an agreement with the city of Vancouver for some years to build and operate an hotel. Naturally when a member of the government goes to Vancouver he is under very serious pressure from the city to implement that agreement. I have had it every time I have been there. Mr. Mackenzie has had it every time he has been there. He spoke to me before he went on this trip. I told him at that time I had no information but that whenever the information came through I would give it to him. After the election and before he left Vancouver I—I think I wired him late in the evening of the election day so that it could not possibly have any effect on the election, and I think it was published the next day in the papers.

Hon. Mr. STEWART: The Minister of National Defence was simply a victim of circumstances.

Hon. Mr. HOWE: No, not the victim of circumstances. Naturally, as he is the member for Vancouver he is the man that the city brings their pressure on.

Mr. HANSON: Not only that, he is the Minister for British Columbia as well.

Mr. WALSH: I was just afraid that we might have developed a system of—

Hon. Mr. HOWE: Incidentally, if you want to pursue that further, I will dig up a few files of Mr. Stevens' announcement at the time that the hotel was started.

Mr. WALSH: I am not very much interested in what Mr. Stevens said.

Hon. Mr. HOWE: You would have been had you been a member of the party at that time, Mr. Walsh.

Mr. WALSH: I presume if I had been sitting in opposition when Mr. Stevens was enjoying the fruits of office I would have taken the same attitude; but I am trying to prevent a development within the cabinet so far as the Minister of National Defence is concerned, such as developed between the Minister of Agriculture and the Minister of Trade and Commerce.

Hon. Mr. HOWE: Not the Minister of Transport.

Mr. WALSH: No; the Minister of Transport stands very high in my esteem.

The CHAIRMAN: Hear, hear.

Mr. WALSH: I would not want any other minister of the cabinet to be trespassing upon his prerogatives, as I know he, with his nature, would not fight back to the same extent as some of the other ministers may. I do not want the Minister of National Defence to presume on what should come from either the Minister of Transport or the management of the railway. I think the Minister of National Defence is fully occupied with his duties as such without trying to make a little political capital for himself out of what the government through the national railways decide to do in connection with the city of Vancouver. I think it is very bad form on the Hon. Mr. Mackenzie's part to make such an announcement and to take advantage of a situation for political purposes. It is not the first time he has done that and I hope it may be the last.

Hon. Mr. HOWE: I think you will find that other ministers in the history of government have done exactly the same thing, and every member has done the same thing.

Mr. WALSH: I should not like to go that far.

Hon. Mr. HOWE: I do not think you need to look on any one side of the house to find that situation.

Mr. YOUNG: As a humble member of parliament representing one of the constituencies in the west, my experience has been that I am asked questions about everything, and I think that is true of every member of this house. We endeavour to give our constituents information and I for one cannot see anything very strange or very irregular, or certainly nothing improper, in the minister for British Columbia giving the people of British Columbia some information which they desire. I cannot see that either Mr. Stevens, for whom Mr. Walsh has not a very high regard, apparently, or Mr. Mackenzie, should be criticized for giving the people of the country information in connection with important matters of the country.

Hon. Mr. HOWE: All he told them was the government was now prepared to carry out an agreement with the city of Vancouver which was several years overdue. That is about all. I think it was a very proper way to do it.

Mr. WALSH: If he had made the announcement in that way. The report in the paper, and I took the report not from a Conservative paper—

The CHAIRMAN: You know, all these speeches are very badly reported.

Mr. WALSH: These speeches are all very badly reported, yes, and I am glad to hear the suggestion that the paper has put words into the Hon. Ian Mackenzie's mouth that he did not intend to be there. But I should like to correct my hon. friend who describes himself as a humble member. I was glad to hear that term used. I did not pass any disparaging remarks in connection with Mr. Stevens. I just simply said I did not want to hold myself responsible for anything Mr. Stevens said in the past or what he might say in the future. He is a law to himself in that respect.

Mr. HANSON: I think we are absolutely out of order.

Mr. HOWDEN: Yes.

The CHAIRMAN: When we finished up yesterday we were considering page 18 of the report.

Hon. Mr. STEWART: Just one question, Mr. Vaughan. I did not have the copy of the questions I had filed when you gave your answers a while ago, and now I have them. Are you prepared to answer any part of the questions?

Mr. VAUGHAN: There is no objection, whatever, Mr. Stewart, to giving the quantity of purchases.

Hon. Mr. STEWART: There is no objection?

Mr. VAUGHAN: No. Then you asked: "what was the cost per ton of such coal at the Kentucky mine"? I would not like to give that. The next question was: "What was the freight rate per ton on such coal"? I would not like to have to give that for this reason, that what might be the tariff rate to a certain point might vary when you come to take into account the divisions existing between certain railways in that rate.

Hon. Mr. STEWART: I see.

Mr. VAUGHAN: Your next question was: "Through what agent or agencies or otherwise was the coal purchased"? We have no particular objection to giving that; we would just as soon not give it, but there is nothing secretive about that so far as it goes. Your next question was: "What was the name of the west Kentucky mine from which the coal actually was taken"? That would be answered really in the fourth question. There were several mines. The next question was: "Were bids asked for this type of coal"? At various times bids have been asked for on that type of coal and the lowest bid has been accepted. Frequently we have negotiated prices considerably lower than any bid we may have received. The next question was: "Does the company that actually supplied the coal provide traffic for the Canadian National system"?

Hon. Mr. STEWART: You answered that. Then, there is one general question I should like to ask, but perhaps it has been covered while I was looking up this copy. Do you find, Mr. Vaughan, that the cost of coal to the company is less when produced from these mines of your own than when purchased from outside?

Mr. VAUGHAN: For certain districts, we do, Mr. Stewart, and we confine that coal to the districts where it is economical to use it. I might answer this way, although I would not like it to go in the record.

The CHAIRMAN: Is that satisfactory?

Hon. Mr. STEWART: Quite.

The CHAIRMAN: Gentlemen, on page 18 appears a heading "Property Investment Account." Are there any remarks in regard to that, or do you want me to read the details?

The CHAIRMAN: Transactions during 1937 affecting proprietor's equity. I suppose this perhaps could be postponed until we are considering the report. Dr. Clark will be here this afternoon to give us a full explanation. Stands.

Funded debt—principal and interest. We have already discussed this question and the Clerk of the committee is taking a special note on the remarks made by the different members of the committee to be included in the report. Are there any further questions?

Mr. YOUNG: I suppose we covered it pretty fully yesterday, but I note here the date of issue of some of the debenture stock goes back as far as 1875; that is a 5 per cent perpetual debenture stock. Now, that was a stock issued by a private company. To-day this is a government owned railway and it does seem to me that we should have readjustment on an interest rate of this kind. The word "perpetual" means apparently that for all time this road would be burdened with an interest rate that is out of harmony with interest rates to-day, unfair to the railway; and more than that, in my judgment, too high a rate of interest all together. I sometimes listen to discussions about the word repudiation and while I am not one of those who would like to see that, I am not in favour of what is usually termed repudiation, yet I cannot help feeling that now that this road has become a government owned road there must be some way whereby this stock could be retired and money received from another source at rates which are current at the present time. There seems to me to be a situation which is entirely wrong, and where a situation is wrong I take it there must be some remedy. Surely we have not such a great bankruptcy of resources at the moment that no method may be found whereby this could be entirely removed. I do not think there is any man who would look at this thing but would be struck by a situation of this kind. The other day in the house we were discussing the question of laying off men. One member suggested that while the men were being made to suffer a lay-off the capital involved, and particularly in this way, was not being made to suffer in any way. These interest rates, as I have said already, are out of line with present day rates. I take it that there could be no reasonable objection from anyone if capital was obliged to conform to present day conditions. I for one would certainly urge that the matter be pursued to the limit to find some way, or some means, of having this stock retired and money obtained at a much more equitable rate of interest than prevails at the present time.

Some Hon. MEMBERS: Hear, Hear,

Hon. Mr. HOWE: Mr. Chairman, I might say that this involves a very large question of policy that only the Minister of Finance is competent to deal with. Canada to-day is borrowing its current requirements at the lowest rate of interest of any country in the world, with the possible exception of the United States; and the reason it is borrowing money at that very low rate is that it honours all its obligations exactly to the letter of the obligation. Now, what Dr. Young suggests, compulsory refunding, is a form of repudiation. I will admit at once that it is the mildest form of repudiation one could possibly find, but nevertheless it is a form which would have an undoubted reflection on the rate at which we are able to borrow money. Now, I do not know that this is entirely a question of morality. Morality is certainly involved, but there is also the question of good business. The Department of Finance would be the proper department to discuss this subject, but I do not think it is a discussion which should be carried on in this committee without the Minister of Finance being present to guide us in it. I doubt if this is a question which this committee can explore to very great advantage, because it is a question that involves not only railway financing but all the financing of the Dominion of Canada.

Mr. YOUNG: I think anyone will recognize that what the minister has said is certainly accurate, and I agree that probably the Minister of Finance would

be the proper person to further investigate this matter, having regard to the whole financial structure of the Dominion.

Hon. Mr. HOWE: Quite.

Mr. YOUNG: And my remarks are intended to be of a type and kind which will come to the attention of the Minister of Finance, with the thought that he with his very great ability and very sound knowledge of financial conditions generally will take this into consideration and see if he will not be able to find some solution to what in my judgment at least is something which should be remedied.

Mr. HEAPS: We discussed this matter yesterday and the thought that came to me was that when we consider our report would be the time to consider this particular item. I realize the point of what the Minister of Transport has said. There is a good deal of weight in what he has said. It is well, I think, for us to remember that all of these bonds are not in exactly the same position, they were not all bought in the open market. These are bonds which were inherited by the government, and they assumed an obligation there, it is quite true. When you see bonds to-day at $6\frac{1}{2}$ per cent on a list of Canadian National Railway obligations, and also bonds bearing 5 per cent and so on, there is some force in the remark that we should perhaps get the interest rate which the railway system has to bear at the present time reduced.

Hon. Mr. HOWE: I think it would be a very suitable subject to mention in the report.

The CHAIRMAN: Instructions have been given to the Clerk to that effect.

We will now proceed to page 20, Dominion of Canada—loans.

Mr. HOWARD: Mr. Chairman, in connection with this funded indebtedness account of the Canadian National Railways, would it be possible to have put into the record the indebtedness in the hands of the public of the Canadian National, and alongside of that the bonded indebtedness of the Canadian Pacific Railway; that is, their bonds and their preferred stock, and the rate of interest they pay?

The CHAIRMAN: I am not sure but what we would be exceeding our powers if we were to do that. We could not give you any information with respect to the C.P.R., you could get in so far as the Canadian National Railway is concerned, but with respect to the C.P.R. you would have to get that information from somewhere else.

Mr. HOWARD: Supposing some of us got it and put it alongside of that would there be any objection to that?

Hon. Mr. HOWE: I doubt the propriety of that. This committee is concerned with Canadian National Railway affairs and has nothing to do with the C.P.R. I do not think it would be proper for this committee to publish the two side by side.

The CHAIRMAN: Dropped.

Mr. WALSH: On page 20 there: in last year's report the Dominion of Canada loans—some of those advances, as I pointed out yesterday, had interest bearing from 4 per cent to 5 per cent or $5\frac{1}{4}$ per cent, and this year they are listed here at $3\frac{3}{4}$ per cent. Have they been refunded or has the interest automatically been reduced; or what was the reason for the reduction from the per cent as reported and the per cent as reported this year?

Hon. Mr. HOWE: That is by agreement with the government. That was temporary financing carried out by treasury bills and the rate charged is indicated.

Mr. WALSH: It varies, in some cases the interest is 4 per cent and sometimes more.

Hon. Mr. HOWE: They got lower interest rates when the loans were made last year. I saw the Minister of Finance and told him that I did not think it was fair to charge the railway that price having in mind the current borrowing rate of the Dominion government, and by agreement he reduced it to $3\frac{3}{4}$ per cent which he thought in view of conditions at the time a very reasonable rate.

Mr. WALSH: Are these amounts represented by bonds or what?

Hon. Mr. HOWE: I think they have all been repaid now. The Canadian National sold its own bonds for a trifle less than $3\frac{3}{4}$ per cent.

Mr. WALSH: The interest on government loans amounted to \$1,744,550. That amount would have been higher had the interest remained the same as last year I presume?

Hon. Mr. HOWE: Undoubtedly.

Mr. WALSH: Which goes to show a very much better account than otherwise we might have had.

Hon. Mr. HOWE: That amount was not included in the balance sheet of last year. It was brought in this year for the first time. It was treated as a non-cash item last year.

Mr. WALSH: If the interest rate had remained the same as last year the \$42,000,000 of a deficit would have been higher this year?

Hon. Mr. HOWE: It would have been higher comparing the two deficits, but this item of \$1,700,000 odd should be struck out because it did not appear in the statement of last year.

Mr. WALSH: It was not in the statement at all last year?

Hon. Mr. HOWE: Right.

Mr. WALSH: It did not come under the heading of income statement?

Hon. Mr. HOWE: No.

The CHAIRMAN: Carried.

Investments in affiliated companies—carried.

Major contingent liabilities. Carried.

Mr. WALSH: I presume we will discuss the airlines, Trans-Canada airlines, when that report is reached?

The CHAIRMAN: We have a special report on that. Carried.

Schedule of companies comprising the Canadian National Railway system. Carried.

Statement of revenue tonnage by commodities for the years 1937-1936. Carried.

Hon. Mr. STEWART: Just as a matter of record, this is a schedule of the companies of the present Canadian National Railway system?

The CHAIRMAN: Yes.

Hon. Mr. STEWART: It just occurred to me that possibly there might have been included in this—the interest in the Trans-Canada airlines.

Mr. COOPER: That is shown on page 21.

Hon. Mr. STEWART: On page 21?

Mr. COOPER: Yes, affiliated companies.

Hon. Mr. STEWART: I was just wondering if it should not have been placed in this schedule.

The CHAIRMAN: It is dealt with under a special report.

Hon. Mr. STEWART: We have 99 companies now, why not take in one more and make it an even hundred. I do not know whether it should be there or not. What is the idea, Mr. Cooper; should it or should it not properly find a place in this schedule?

Mr. COOPER: It was desired to make a separate report for it and to exclude it from the consolidated account of the Canadian National Railways.

Hon. Mr. STEWART: Yes?

Mr. COOPER: The companies on page 22 are the companies which go into the consolidated system. The companies on page 21 are those in which we have an interest but which are excluded from the consolidated statement.

Mr. McKINNON: It is in there separately under Trans-Canada airlines.

Hon. Mr. STEWART: Yes, as a separate schedule.

The CHAIRMAN: Details of railway equipment. Carried.

Mr. HEAPS: Is there any new equipment being ordered for 1938?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: I am just wondering, Mr. Chairman, if in ordering new equipment the government or the management of the railways could not take into consideration the question of providing their own shops with as much work as they possibly can instead of putting it out to private companies.

The CHAIRMAN: Including Mont Joli.

Mr. HEAPS: What was that you said?

The CHAIRMAN: I said, including Mont Joli.

Mr. HEAPS: Well, I don't know about that—

Mr. HUNGERFORD: I think we have done that, Mr. Heaps.

Mr. HEAPS: Well, there is continuous complaint, Mr. Chairman, coming in, I would suppose, to every member of the House in regard to the fact that a great many of the orders which are given to private companies could just as well and just as cheaply be produced in the railway shops themselves. I think there must be communications coming in almost every other day to members in that respect; and when we find that there are large quantities of equipment being farmed out, if I may use that term, to private companies, I often wonder myself why the railway shops in Transcona and the other shops down there should not have a larger share of the orders for the equipment that is necessary for the running of the Canadian National.

Mr. HUNGERFORD: There has been no change in the policy over a great many years.

Mr. HEAPS: It is not a case of change of policy. I would like to see a change of policy, and the change I would like to see is that there should be more of the orders placed in the government shops.

Mr. HUNGERFORD: There are many complications in connection with that.

Hon. Mr. STEWART: I should think so.

Mr. HUNGERFORD: We are following the general policy that is followed by railways, and we think it is a sound economic policy.

Mr. HANSON: Is it found that it would cost more to make these in the company's shops than it would by tender?

Mr. HUNGERFORD: It depends upon the suitability of the work for the particular shop. A certain plant can do a certain class of work advantageously, but it is not equipped to do other classes of work.

Hon. Mr. STEWART: Is there not also involved in that the wider principle, in these depressed times, of giving employment—relieving unemployment? For that reason it was thought well, as I believe in some instances, to give work outside of the company's shops because men who are unemployed by private companies are just as much a problem as men unemployed who would be working in the railway shops.

Mr. HUNGERFORD: They are not a problem to the railway company.

Hon. Mr. STEWART: I mean to the government.

Mr. HUNGERFORD: Well, that is another detail.

Mr. EMMERSON: Are the shops of the C.N.R. construction shops or repair shops?

Mr. HUNGERFORD: They are primarily repair shops.

Mr. EMMERSON: Then you cannot build in those shops as cheaply.

Mr. HUNGERFORD: As I said before, it is quite possible and feasible to construct certain classes of equipment in certain of our shops; but they are not well adapted to carry on other classes of work.

Mr. HOWDEN: I would like to get a statement from the president that the replacements on the railway have been procured in the most economical way. I come from St. Boniface, which embraces the Transcona shops which are probably as large as any shops that the company has. I do not know. That is their claim, at all events. I quite readily realize that the Canadian National Railways is in the transportation business, and that is its first business; that its business is neither the building of engines nor the building of box-cars. I also realize that the Canadian National Railways move a great deal of freight for these particular companies that do build engines and build box-cars, and that if these companies were entirely ignored they probably would ignore the Canadian National Railways on the other hand.

Hon. Mr. HOWE: I think we should correct that. It is not true.

Mr. HOWDEN: What is that?

Hon. Mr. HOWE: I think the freight we haul for these companies is not a factor. We create our own freight. I do not think I would imply that that is a factor. I do not think that it is.

Mr. HOWDEN: Taking the minister at his own word, that the hauling of freight is not a factor, if the shops of the Canadian National Railways System can assemble engines and build box-cars, refrigerator cars and coaches as cheaply or more cheaply than they could be secured from the contract shops, then I do not see anything that stands in the way of them building their own equipment. If there is no feature at all and if it is as economical for them to produce their own cars and their own engines in their own shops—perhaps the officials have no business to so tell me, but I am told that they could build these cars and these engines; and if it is not a matter of economy and if it is not a matter of business, then why should not they build them in these shops? That is what I want to know.

Mr. HUNGERFORD: My answer to that is this: As I said before, there are certain classes of equipment that the shops are adapted to build and can do so economically. In my judgment and in the judgment of the officials who have had experience in these matters they are not equipped to handle certain other classes of equipment.

Mr. HEAPS: May I pursue that one point a bit further. With regard to the equipment that they are in a position to produce, is any of that equipment being sent out or being ordered to be made by private concerns?

Mr. HUNGERFORD: There have been some in the past, yes. It has been divided up.

Mr. HEAPS: Could not that class of equipment be produced in the future in the railway shops themselves?

Mr. HUNGERFORD: It sometimes becomes a question of time. Time is an important element in the thing. By the time we get the necessary authority to produce or construct the equipment, the time is very short until the period that we may require it. A great many things have to be taken into consideration in regard to this matter.

Mr. HOWDEN: I would like to say this before I quit, that it is very hard to feel satisfactorily convinced by the president's remarks, because we have

a statement of the president on the one hand, which should certainly go; but, on the other hand, and this is the position in which a member finds himself, at all events—we are faced with these men in the shops and their officials, their foremen and superintendents and that sort of thing, who indicate that this work could be prosecuted very nicely in these shops. Naturally, we are looked to by our constituents to find out why more work is not given to these shops, considering that they are government shops, government undertakings, and that these men are working for the government indirectly.

Mr. HUNGERFORD: Well, it represents a difference in view.

The CHAIRMAN: Page 27.

Hon. Mr. STEWART: Mr. Chairman, I notice in the freight equipment, the additions during the year 1936 were 3,785 and in the year 1937 they were 852; and the retirements during the year 1936 were 3,401 and in 1937 apparently 1,407.

Mr. ARMSTRONG: I do not think that is correct.

Hon. Mr. STEWART: That is the total, is it?

Mr. ARMSTRONG: The facts are these: At the end of December, 1936, there were 95,993.

Hon. Mr. STEWART: I am not speaking about the total. I am speaking about the comparison of the new ones added and retired in those two years.

Mr. ARMSTRONG: One is additions.

Hon. Mr. STEWART: Additions, yes.

Mr. ARMSTRONG: The second column is additions during the year 1937.

Hon. Mr. STEWART: Take it during the year 1936. What were the total additions?

Mr. ARMSTRONG: They are not shown.

Mr. COOPER: There are no 1936 figures.

Hon. Mr. STEWART: I see added up here additions during the year—page 26—3,785. Is that the total additions during that year?

Mr. COOPER: That is correct.

Hon. Mr. STEWART: What are the additions during the year 1937,—852?

Mr. ARMSTRONG: No. Pardon me.

Hon. Mr. STEWART: It is the corresponding figure, is it not?

Mr. ARMSTRONG: No. The additions during the year 1937, were 3,785.

Hon. Mr. STEWART: Yes, I am right in that.

Hon. Mr. HOWE: This is during 1937, though.

Hon. Mr. STEWART: 1936 I am talking about.

Mr. COOPER: No. 1936 is not shown.

Hon. Mr. HOWE: It is at the end of December 31, 1936, and additions during the year 1937.

Hon. Mr. STEWART: That shows additions during the year.

Mr. COOPER: That is 1937.

Hon. Mr. STEWART: I took it to be the same there as follows 1936.

Hon. Mr. HOWE: The figure is as of December 31st, 1936.

Mr. ARMSTRONG: This report is for the year 1937.

Hon. Mr. STEWART: Exactly; and these additions are during the year 1937.

Mr. ARMSTRONG: Right. In the next column are retirements during the year 1937.

Hon. Mr. STEWART: What does it mean by “added”?

Mr. ARMSTRONG: These are conversions during the year. That is, they are converted from one class to another.

Hon. Mr. STEWART: Added to another class?

Mr. ARMSTRONG: Added to and retired from.

Hon. Mr. STEWART: The total number?

Mr. ARMSTRONG: The total number.

Hon. Mr. STEWART: They are practically the same.

Mr. ARMSTRONG: Yes.

Hon. Mr. STEWART: The total number in 1936 was 95,993 and in 1937 it would be 95,822.

Mr. ARMSTRONG: There was actually a reduction in the freight equipment at the end of 1937 as compared with 1936.

Hon. Mr. STEWART: Yes; the equipment at the end of 1937 is less.

Mr. ARMSTRONG: That is correct.

Hon. Mr. STEWART: Although a great many were added in 1936.

Mr. ARMSTRONG: You are speaking of freight equipment?

Hon. Mr. STEWART: Yes. It is freight equipment I am dealing with only.

The CHAIRMAN: Carried.

Mr. HEAPS: Before you leave that item, may I ask the management if they are short of any equipment at the present time?

Mr. HUNGERFORD: I beg your pardon?

Mr. HEAPS: If they are short of any equipment at the present time.

Mr. HUNGERFORD: Not at the present time, unfortunately.

Mr. HEAPS: Unfortunately? The reason that prompted my asking that question was the answer I got yesterday with regard to sleeping car equipment on the cheap excursion trains which run between the various points east and west. I know they have done that in the United States in the cheap trains; they have provided sleeping car accommodation, and if we are not short of equipment I am just wondering why we could not do the same here as they did in the United States. I think it would be conducive to encouraging people to travel more than they do at the present time.

Mr. HUNGERFORD: Well, that is a matter that is explored very carefully by the Passenger Department; not only our passenger department but all passenger departments; and we carry on that work more or less concurrently with the Canadian Pacific, and on the same basis.

Mr. HEAPS: Both companies came to the conclusion that it would be more convenient for the public to sit up all night than to take a sleeper at night?

Mr. HUNGERFORD: We quote a very low rate for those who want to sit up all night.

Mr. HEAPS: They might be prepared to pay a little extra if they did not have to do that.

Hon. Mr. STEWART: Some people sit up all night, anyway.

Mr. HEAPS: I am not in the habit of doing it. I do not know whether you are.

Hon. Mr. STEWART: Sometimes, but not always. It depends on who the company is.

Mr. HANSON: With regard to these business cars, 69—is that only railway business cars or does that include the government cars? Are they owned by the railroad or does that include the Prime Minister's car and the minister's car?

Mr. HUNGERFORD: We have nothing to do with that. The government has a certain number of cars.

Mr. HANSON: They are not included?

Mr. HUNGERFORD: No.

Mr. HANSON: How many government cars are there?

Hon. Mr. HOWE: Four.

Mr. EMMERSON: There is an item there of unit cars, 53. What are they?

Mr. ARMSTRONG: Those are self-propelled cars, either straight gasoline, gasoline-electric or Diesel-electric.

The CHAIRMAN: Is there anything else? If not, carried. Then we come to page 27, statistics. Do you want me to go all through this?

Mr. WALSH: I wanted to bring up a point here—I do not know whether it comes in here, but it will come in here as well as any other place,—in connection with the facilities for getting to and from Prince Edward Island. A number of us have had the privilege of spending our vacation on the island, and personally I would recommend that to more Canadians rather than going to the State of Maine.

The CHAIRMAN: You get too much information when you are there.

Mr. WALSH: There would be more travel to Prince Edward Island, I think, if the facilities offered were very much improved; and I feel, after certain experience, that those facilities could be improved. I invite the president and other officials of the railway to take that trip as occasion might offer in order to know where the improvement could be made. The travel is very satisfactory until we get to Moncton or even to Sackville; but from Sackville to Charlottetown it is abominable. There are two trains, I think, going from Sackville to the cape in the summertime, to reach the Ferry; and both are run, I presume, as locals. I have been on one, and I presume the other is the same. It stopped at every crossroad there is between Sackville and the cape. And then we hang around the Cape for an indefinite period, shunting backward and forward, instead of having the ferry ready to receive the cars as they arrive on and off without any delay. Then going from Borden to Charlottetown, it seems to me an indefinite road for such a short stretch of line.

I was wondering if we could not get better facilities for travelling from Sackville to Charlottetown in order to improve conditions on that island as far as travel is concerned. I feel that there would be more people travelling backward and forward from the island, the island population itself, also that there would be far more people interested in spending their summer vacations on the island, because, as most members know, the beach facilities on the island are admirable and the hotel accommodation is not bad and would be improved if the railway would improve the facilities to reach the island. There are no finer beaches on the continent than are to be found on the far shore of Prince Edward Island.

I am not attempting to advertise the island; I am not an advertising agent.

Mr. McKINNON: You are doing pretty good.

Mr. WALSH: I am merely dealing with it from the point of view of the railway. The facilities are there on the island to receive a tremendous amount of tourist traffic. Now that the government has undertaken to put a national park there with the presumption of road facilities from Charlottetown, Summerside and Georgetown to get into that park—the park is situated on the coast line where most of the beaches are located—they have everything possible on the island. It is the difficulty in reaching the island that is causing such an amount of inconvenience and, from the point of view of the natives of Prince Edward Island, grievance. I grant you that the population of Prince Edward Island is rather small, and probably commensurate with their size they are getting railway facilities which they could not pay for themselves. But I look at it from this point of view: Prince Edward Island is the cradle of Confederation; it was from there that the Dominion of Canada started. They are a province. They are not

just an island, they are a province, and I feel that we and the rest of Canada should give Prince Edward Island a better break in regard to railway facilities, both freight and passenger, than they are getting at the present time. I urge this while the officials are here, particularly while the president and general manager of the road are here. I urge it at this time in the interests of the railway to see if something can not be done to facilitate better service. I do not know how to run a railway; I do not know whether I am making suggestions that are beside the point; but I do feel in travelling down there that there can be something done that would improve facilities and bring something to that island which they have not enjoyed in the past. If it could be done, it would certainly eliminate any possibility of the necessity of relief so far as the island is concerned, and it would generally improve conditions for the railways.

Mr. HUNGERFORD: Is the service unsatisfactory?

Mr. WALSH: The service is not unsatisfactory; it is deplorably slow. It takes such an unearthly time to get from Sackville to Charlottetown.

Mr. HOWARD: You can save six hours by flying from Moncton.

Mr. WALSH: Yes, but there are some of us, unfortunately, who cannot fly, and it is not because of finances but because of physical reasons. We have got to keep on terra firma, and we have never been up in the air yet and do not intend to go up during our lifetime.

Is it necessary to run both those trains as locals between Sackville and Charlottetown, or could one of them be run through as an express stopping at only the most important points as you travel towards Charlottetown? I think a few hours could be saved, and certainly the accommodation in getting on and off the ferry at both ends could be very much improved. I cannot see the necessity of waiting such a long time to get on the ferry. I cannot see why they cannot have that ferry all ready waiting for the train, not the train to sit there and wait for the ferry. The ferry should be there ready to receive the train and in five minutes the train should be on the ferry on its way over, and the same thing getting off. I just make that suggestion in the interests of the railway, also in the interests of that island province whose tourist facilities can certainly be very much improved. It would be appreciated by the Canadian people if the facilities to reach those tourist places could be improved.

Mr. HUNGERFORD: I can assure you, Mr. Walsh, that a great deal of consideration has been given to these matters and a great deal of money has been spent in improving the tricks and other facilities on that service; but we would be glad to take another look at it.

Hon. Mr. Howe: I can say also that the government has taken this problem in hand and provided two ferries instead of one that was run last summer. We believe that we will give the island this year the best service they have had in their history and that it will adequately take care of tourists who wish to cross there by train or motor.

Mr. WALSH: I am glad to hear that from the minister. I did feel that that part had been neglected from the tourist point of view. The chairman has been there and he knows the facilities.

The CHAIRMAN: Lovely.

Mr. WALSH: He does not know the difficulties in getting there because he travels de luxe, but the rest of us have to travel by rail, and we would like to enjoy those facilities with a greater degree of comfort in approaching and getting back home again.

Mr. HOWARD: I hope the minister has already made that statement about the change in the ferries, because Mr. Walsh can make a speech in the summer down there like Mr. Mackenzie made in Vancouver.

Mr. EMMERSON: I think what Mr. Walsh was referring to was the passenger traffic on the railway, not the tourist traffic, because the bulk of the traffic in the summer time goes over there by motor cars, and I do not think anybody could wish for any better service than is given in connection with motor cars. It is true as far as the passenger traffic is concerned; that is, freight traffic as well as passenger traffic on that big steamer, as the freight cars have to be loaded on when the train comes in as well as passengers.

The CHAIRMAN: Carried.

Statistics of rail-line operation. Are there any questions?

Carried.

Hon. Mr. STEWART: I notice the average mileage of road operated is greater in 1937 than in 1936; what is the explanation for that? Is that a new line?

Mr. ARMSTRONG: There is the Seneterre-Rouyn line from Seneterre to Val d'Or and there are one or two branch lines in Western Canada.

Hon. Mr. STEWART: New lines?

Mr. ARMSTRONG: They were not classified as operated mileage, but they were re-classified as operated mileage last year. It is not new construction.

Hon. Mr. STEWART: Were there any lines abandoned as against those new lines?

Mr. ARMSTRONG: Yes; the abandonments included in that figure were about twelve miles during the year.

The CHAIRMAN: Carried.

Employees and their compensation.

Carried.

Distribution of the dollar.

Carried.

Canadian National Railways, condensed consolidated balance sheet at 31st December, 1936, and so on. That is the same balance sheet that you have examined.

Mr. HEAPS: Carried.

The CHAIRMAN: Carried.

Operated mileage, December 31, 1937. I think we have gone through that already in detail.

Carried.

Gentlemen, that disposes of the annual report of the Canadian National Railways system.

Mr. WALSH: Now, Mr. Chairman, before leaving this report, I think it is in order for me to bring up a point in connection with the annual report of the Canadian National system, a point of omission. As you know, last year I contended for a statement that would keep before the public the exact cost in dollars and cents of this national enterprise. In that, I was unsuccessful. There is nothing in this report that will tell the people of Canada exactly what their investment is in that railway; that is, exactly what it costs them in dollars and cents to operate that railway for a period of years, say, from 1922, when it was first commenced as a national enterprise, down to date.

In the Gazette of March 31, 1938, we had a statement showing in tabulated form official figures telling the story of the unchecked losses of the Canadian National system year by year since the various lines were amalgamated, commencing with the year 1922 and going down to the year 1936. This showed for each year the income deficit; the interest on government loans; that is, unpaid; the profit and loss debits, and the system net loss down to the year ending December 31, 1936. I have a copy of a clipping from the Gazette of March 31, 1938, and I presume I shall have to read the figures unless the members will take them as read, having already seen them in the Gazette.

Mr. HEAPS: Who was responsible for the publication of those figures?

Mr. WALSH: They were published in the Gazette and they were compiled from statistics obtained from Mr. Wrong in one of the departments in connection with government service.

Mr. HEAPS: Who compiled those statistics?

Mr. WALSH: They were compiled by the person who wrote this article.

The CHAIRMAN: Do you vouch for their accuracy?

Mr. WALSH: I would vouch for their accuracy, and I can refer to the government statements issued by the Bureau of Statistics for the figures that are concerned. I will read the figures—

Hon. Mr. HOWE: Just a minute. Do you recall this paragraph in The Capital Revision Act passed last year?

The Minister shall include annually as an appendix to the public accounts of Canada a detailed statement of the assistance, whether by way of grant or unpaid loan of money, undischarged guarantee, grant of land or otherwise given by the Dominion of Canada to every railway showing separately the assistance given (a) in aid of construction and (b) to meet losses in operation. Such statement shall, as far as possible, show separately for each item of assistance the name of the Company to which granted; the date upon which granted; the authority for the grant, whether by statute, contract or otherwise; the purpose for which granted, and the manner in which such assistance has been dealt with in the public accounts of Canada. The appendix shall also contain a similar statement in respect of loans which have been repaid and guarantees which have been discharged, showing the same details and also the dates of repayment or discharge. Grants to relieve unemployment shall not be considered as assistance to the railways.

Those are the instructions of the Statutes of Canada as to where material of the kind which your clipping contains shall be published, and I feel personally that a clipping with as little authenticity as that should not be included in the record of this committee.

Mr. HOWARD: Hear, hear.

Mr. WALSH: I shall withdraw it as a clipping, but I shall read into the record the information which I have received from the Bureau of Statistics in reply to my question asking year by year from 1922 to 1936 inclusive, for the income deficit, the interest on government loans, profit and loss debits and the net loss of the railway system over that period of time. The year 1922, income deficit \$33,211,945, interest on government loans unpaid \$24,748,152, profit and loss debits \$370,207, system net loss \$58,330,304.

Now, I will not read them all because I know these figures are familiar. The ones I have just given are for the year 1922. Then I come down to the year 1936 and under the same headings I find a net income deficit of \$43,197,346, interest on government loans unpaid \$36,428,874, profit and loss debits \$12,684,819—

Mr. HANSON: Sir Edward Beatty made the same speech over the radio.

Mr. WALSH: I should like if the hon. gentlemen did not intrude the suggestion that Sir Edward Beatty used these figures. I recognize him as an authority, but I should like to quote figures from the Bureau of Statistics rather than from any other person or body of persons in the Dominion of Canada.

Mr. HOWARD: What is the object of the quotation?

The CHAIRMAN: He is preparing a speech.

Mr. WALSH: I have quoted a figure for 1936 of \$36,428,874 interest on government loans unpaid, profit and loss debits \$12,684,819, system net loss \$92,311,038. Now, the total for the fifteen years of the net income deficit

amounts to \$459,979,453, interest on government loans unpaid \$492,691,400, profit and loss debits \$66,322,561, system net loss \$1,018,993,414.

Now we cannot have these figures for 1937 on account of the Act that was passed last year, known in this committee as Bill No. 12. What I maintain is this, and I maintained it last year, in the statement compiled by the auditor there should be a statement similar to the one that I hold in my hand that will show to this committee and to the public generally every item that the Dominion government has put into the Canadian National system so that the people in this committee could be fully informed from year to year as to the actual cost of this railway over a period of time.

Mr. HEAPS: What is the purpose of that?

Mr. WALSH: The purpose is that it would keep before this committee and before the public the possibility of further extravagance, and that will act as a curb, as well as a piece of information that has been eliminated from the records that previously up to this year you had.

Mr. HEAPS: Would you mind stating the extravagance?

Mr. WALSH: The extravagance occurred between 1922 down to 1930, without any political significance. That is when the boom period occurred in connection with our railway development in Canada. If you refer back to the figures when the Canadian National Railways were taken over in 1922 or organized as a government enterprise in 1922, and consider the figures today of what it has cost this country, you will readily see that we entered upon a period of extravagance following the year 1922 and that extravagance was only curbed with the advent of the depression.

Mr. HEAPS: Between 1930 and 1938 you have very little complaint to make?

Mr. WALSH: I have very little complaint to make from 1930 to 1938 as far as the management is concerned. From 1930 right down to date I feel the officials of the Canadian National Railways are doing their utmost to curb unnecessary expenses and to administer the road as economically as it possibly could be administered in the circumstances. I am not holding the present management or officials in any way responsible for the position in which we find ourselves with a debt accumulated of over one billion dollars. I should have liked to have seen in the report an additional page showing these figures so that they could be kept before us and in that way we would understand exactly what this railway means to us and to the people of Canada. It would act as a curb on any propensity that any officials in the future may have to enter upon a period of extravagance if they find times improving, which presumably they will do in due course.

Now, besides that it would furnish a tremendous amount of information. I contended that last year. That is the statement that I wanted in our records last year. Instead of that I got what the Minister has read this morning, an appendix added to the public accounts of Canada, showing something in which we are interested but with which we were not too much concerned, because what is being added as an appendix is not a record that is read by very many people in this country and even by very many people present in this committee. Therefore it is a compilation of figures that is hidden away where you would not expect to find them. These figures, instead of being in the public accounts of Canada—if I may make a suggestion to the Minister—should also be included in the statement of the railway.

Hon. Mr. HOWE: May I suggest to my hon. friend that not very many people are interested in computing interest on money they lose. Those few who are can go to the public accounts for the information.

Mr. WALSH: When we lose money it is gone, but in this case the government has advanced money and they are still paying interest on that advance.

There are bonds outstanding representing this amount of money, on which the government is still paying interest.

Hon. Mr. HOWE: I question that.

Mr. WALSH: Now you have eliminated that book debt. As we call it merely a book debt, we have eliminated it. But the compilation of the interest on advances from the government has been eliminated and the people of Canada will no longer have a true picture of the actual condition of the Canadian National Railways from 1922 down to date.

Now, I am not saying that I was in accord with what was done in 1932 when certain figures were eliminated. If I had been present at that time I would have objected to that action on the part of the government of the day. I do not believe in that. I always believe in getting before the people who are interested a genuine picture of the situation. Today we have that account somewhat eliminated from our records, but with a statement such as I have here we could know as we sit around this board from year to year exactly what the actual outlay has been to the people of Canada for this railway. I feel that it is useful information and it is something that should be included in this statement. Then, I should also like to urge the Minister when he includes in the public accounts of Canada, as outlined in section 24, page 22, of the Capital Revision Act, a statement, that that statement should also be found in the records as passed before this committee. It is not here. Neither of these two statements is present in this annual report, and I feel that they should be. I should like to urge that before the committee and before the Minister in particular, so that he may take what action he may see fit in order to give us a more complete and more detailed picture of the Canadian National Railways next year.

Mr. HEAPS: On page 1 of the report to the committee appears practically all that Mr. Walsh is asking for except the interest on the accumulated deficits. Here in the report to the Minister, dated March 18, is shown the operating result in 1937 and 1936 complete, with the cash deficit shown as \$42,345,867.99 for 1937 and deficits for 1936 slightly more, about \$1,000,000 more. If that is not putting before the public the actual operations for the year, I do not know what it is.

Mr. WALSH: One year.

Mr. HEAPS: What he wants is to go back each year for a number of years.

Mr. WALSH: I want a complete picture put before the public from 1922 to 1936 inclusive.

Mr. HEAPS: We have been sitting here listening to talks that we have to operate the railway on a business basis, and I should like to know which business concern in this country, when it brings down an annual report to its directors or shareholders, gives a report back for nine or ten years.

Mr. HOWARD: None.

Mr. HEAPS: What Mr. Walsh wants is to operate our utility on a somewhat different basis.

Mr. WALSH: No.

Mr. HEAPS: What Mr. Walsh wants is to operate our utility on a somewhat different basis from that on which any well governed utility is operated.

Mr. WALSH: I want it on a business-like basis.

Mr. HEAPS: That is what I want to do. But he feels we should go back over a period of years, which is different from what any other concern does.

Mr. WALSH: Every concern does that.

Mr. HEAPS: No.

Mr. WALSH: Certainly they do.

Mr. HEAPS: They do not publish a balance sheet for nine or ten years.

The CHAIRMAN: It seems to me it is out of our hands entirely. If any member of the committee desires next year, when the report is considered, a copy of the public accounts which gives a true statement of the business of the railway, that can easily be done.

Mr. WALSH: If this committee decided to embody that in the report—

The CHAIRMAN: No, because parliament has decided otherwise.

Mr. WALSH: Parliament decided to publish this report, according to section 24, in the public accounts of Canada. It decided to do that which is being done. Parliament did not decide not to publish it in the report of the Canadian National Railways. We will not be contravening anything that parliament has done if we publish it in the Canadian National Railways report.

The CHAIRMAN: I think any judicial opinion—and there are some lawyers present—will tell you we will have to go back to parliament to secure the necessary authority to add to the present report each year the figures that are compiled and published in the public accounts of Canada in accordance with an Act of parliament called Bill No. 12.

Mr. WALSH: If the Minister would bring forward an amendment to section 24 along the lines I have suggested I would be glad to give him what support I can in parliament.

Mr. HEAPS: What time shall we meet this afternoon?

The CHAIRMAN: Four o'clock. First of all we shall consider the Canadian National West Indies Steamship Lines, and then Dr. Clark will be here.

Mr. YOUNG: Mr. Chairman, I understand that this report is not quite finished, that we have to hear Dr. Clark on it—

The CHAIRMAN: Not on this report. We have a special report.

Mr. YOUNG: I should like to say just one thing. There is one particular matter on which I have something to say.

The CHAIRMAN: You can refer back to it this afternoon.

The committee adjourned at 1 o'clock to meet this afternoon at 4 o'clock.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Order, gentlemen. We have now to consider the Canadian National Railways Securities Trust. Dr. Clark is here; and I wish you would take your report from the beginning, Dr. Clark.

Mr. CLARK: Mr. Chairman and gentlemen, I will read the report which has been printed and which I believe is before you.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, ONTARIO, March 11, 1938.

The Honourable C. D. HOWE, M.P.,
Minister of Transport,
Ottawa.

SIR,—In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1937.

The Canadian National Railways Securities Trust was incorporated by Section 12 of The Canadian National Railways Capital Revision Act, 1937.

The first meeting of the Trustees was held at Ottawa on the 17th September, 1937.

Dr. W. C. Clark, Deputy Minister of Finance, was elected Chairman of the Securities Trust; Mr. F. M. MacLennan, Chief Treasury Officer, Department of Transport, Ottawa, was appointed Secretary, and the Comptroller of the Canadian National Railways, Montreal, was appointed Comptroller. George A. Touche and Company were appointed Auditors.

A Bylaw relating generally to the transaction of the business and affairs of the Securities Trust was enacted by the Trustees and approved by the Governor in Council.

The Minister of Finance transferred to the Securities Trust the Indebtedness to His Majesty together with the collateral securities held by the Minister in respect thereof as set out in Schedule A of The Canadian National Railways Capital Revision Act, 1937, and in exchange therefor the capital stock of the Securities Trust consisting of five million shares of no par value was issued to the Minister of Finance to be held on behalf of His Majesty.

The collateral securities transferred by the Minister of Finance were verified and have been deposited for safekeeping.

Interest accruing after December 31, 1936, on the principal of the loans included in the Indebtedness to His Majesty was waived by the Securities Trust until further ordered by the Trustees, and this action was approved by the Governor in Council.

The initial stated value of the Capital Stock of the Securities Trust has been reduced by \$711,732.21 due to capital losses from certain line abandonments made by the Railway during 1937 in respect of which His Majesty has not made cash reimbursement to the Railway.

The line abandonments in question were:—

Line abandonment between mileages 35.4 and 59.46 on the North Lake Subdivision.. . .	\$260,686 27
Line abandonment between mileages 36.13 and 42.21 on the Orono Subdivision.. . . .	196,405 00
Abandonment of Red River Bridge at Winnipeg.	194,398 58
Abandonment of Bethel Granite Railway.. . . .	60,242 36
	<hr/>
	\$711,732 21
	<hr/>

The Trustees present herewith the Balance Sheet of the Securities Trust at 31st December, 1937.

For the Trustees,

W. C. CLARK,
Chairman.

I believe, Mr. Chairman, there was a question which came up this morning in reference to the last point covered in the second last paragraph; namely, the reduction in the initial stated value of the capital stock of the Securities Trust, as the result of capital losses through certain line abandonments; and a question arose I am told as to whether there was authority to do that without a special parliamentary provision therefor. We all thought that there was such authority in the Act but we asked the Department of Justice for a specific opinion with regard to that point, and I have before me the legal opinion given by the deputy minister of Justice. It is dated at Ottawa, March 30, 1938, and I will read it.

J. R. 3507/38

“DEAR SIR,—I have had under consideration your letter of the 18th instant regarding the Canadian National Railways Capital Revision Act,

1937, in which you ask to be advised whether the Minister of Finance has power, without any additional parliamentary authority, to make yearly the appropriate changes in the public accounts of Canada to give effect to changes in the proprietor's equity, and beg to advise you that in my opinion the question submitted is to be answered in the affirmative. The annual changes which will occur in the item representing the proprietor's equity on the books of the Canadian National Railway System are, in that form, the result of the carrying out of the provisions of the Act. It seems to me, therefore, that the Minister of Finance has not only power to make corresponding changes in the public accounts of Canada, but that it is his duty to do so in order that the accounts may be shown as they stand after giving effect to the directions of Parliament.

Let me read that sentence again, because it is the crux of the legal opinion:—

It seems to me, therefore, that the Minister of Finance has not only power to make corresponding changes in the public accounts of Canada, but that it is his duty to do so in order that the accounts may be shown as they stand after giving effect to the directions of Parliament. In that connection see section 38, subsection 2, of paragraph (c), of the Consolidated Revenue and Audit Act, Chapter 27 of the statutes of 1931. I do not think that the provisions of section 8 are inconsistent with this view. The adjustment in relation to the value of the capital stock of the Canadian National Securities Trust to which you refer has been duly made in accordance with the provisions of the section.

Yours very truly,

(Signed) W. STUART EDWARDS,
Deputy Minister of Justice.

The CHAIRMAN: Are there any questions you want to ask on that Mr. Stewart?

Hon. Mr. STEWART: No, thank you.

The CHAIRMAN: Are there any other questions on that point? Gentlemen, shall we consider the balance sheet of the Canadian National Railways Securities Trust which you have before you. You will notice that it is audited and certified to by George A. Touche and Company, chartered accountants. Shall that carry? Carried.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Balance Sheet at 31st December, 1937

ASSETS

Claims for Principal of Loans:

Canadian Northern Railway.. . . .	\$312,334,805	10	
Grand Trunk Railway.. . . .	118,582,182	33	
Grand Trunk Pacific Railway.. . . .	116,006,599	08	
Canadian National Railway Company.. . . .	96,936,971	75	
			\$ 643,860,558 26

Claims for Interest on Loans:

Canadian Northern Railway.. . . .	\$309,702,897	65	
Grand Trunk Railway.. . . .	103,250,802	95	
Grand Trunk Pacific Railway.. . . .	107,326,622	84	
Canadian National Railway Company.. . . .	54,501,313	57	
			574,781,637 01

Collateral Securities:

As per Schedule A. 1.. . . .			
			\$1,218,642,195 27

LIABILITIES

Capital Stock Owned by His Majesty:

5,000,000 shares of no par value capital stock, having an initial stated value of.. . . .	\$270,037,437 88
Less—Capital Losses of the National Railway System subsequent to 1st January, 1937—not reimbursed by His Majesty.. . . .	711,732 21
	<hr/>
	\$ 269,325,705 67

Acquisition Surplus:

—being the amount by which the book value of claims and interest thereon—per contra—exceeds the book value of the capital stock as shown above.. . . .	949,316,489 60
	<hr/>
	\$1,218,642,195 27
	T. H. COOPER, Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1937.

There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1937, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

10th March, 1938.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Schedule A.1

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Summary of Indebtedness Transferred from the Government
to the Securities Trust

Loans Outstanding

CANADIAN NORTHERN RAILWAY—	
3½% Loan, Chapter 6, 1911.. . . .	\$ 2,396,099 68
4 % Loan, Chapter 20, 1914.. . . .	5,294,000 02
5 % Loan, Chapter 4, 1915.. . . .	10,000,000 00
6 % Loan, Chapter 29, 1916.. . . .	15,000,000 00
Temporary Loan, 1918, repaid.. . . .	.....
x6% Loan, Chapter 24, 1917.. . . .	25,000,000 00
x6% Loan, Vote 110, 1918.. . . .	25,000,000 00
x6% Loan, Vote 108, 1919.. . . .	35,000,000 00
x6% Loan, Vote 127, 1920.. . . .	48,611,077 00
x6% Loan, Vote 126, 1921.. . . .	44,419,806 42
x6% Loan, Vote 136, 1922.. . . .	42,800,000 00
6% Loan, War Measures Act, 1918.. . . .	1,887,821 16
x6% Equipment Loan, Chapter 38, 1918.. . . .	56,926,000 82
Indebtedness refunded by Government under Chapter 24, 1917, and Chapter 11, 1918.. . . .	.....
xMortgage covering loans above.. . . .	.....
	<hr/>
Total Canadian Northern.. . . .	\$312,334,805 10
GRAND TRUNK RAILWAY—	
6% Loan, Vote 478, 1920.. . . .	\$ 25,000,000 00
6% Loan, Vote 126, 1921.. . . .	55,293,435 18
6% Loan, Vote 137, 1922.. . . .	23,288,747 15
4% Loan to G. T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk	15,000,000 00
Temporary Loans, repaid through subsequent issues of guaranteed securities and Loans.. . . .	.....
	<hr/>
Total Grand Trunk.. . . .	\$118,582,182 33

GRAND TRUNK PACIFIC RAILWAY—

3% Bonds, Chapter 24, 1913..	\$ 33,048,000 00
6% Loan, Chapter 4, 1915..	6,000,000 00
6% Loan, Vote 441, 1916..	7,081,783 45
6% Loan, Vote 444, 1917..	5,038,053 72
6% Loan, Vote 110, 1918..	7,471,399 93
Receiver's Advances, P.C. 635, March 26, 1919..	45,764,162 35
Interest Guaranteed by Dominion..	8,704,662 65
Interest Guaranteed by Provinces of Alberta and Saskatchewan..	2,898,536 98
Agreement with Government under Chapter 71, 1903.. . . . .	.....
Total Grand Trunk Pacific..	\$116,006,599 08

CANADIAN NATIONAL RAILWAY COMPANY—

6% Loan, Vote 139, 1923..	24,550,000 00
5% Loan, Vote 137, 1924..	10,000,000 00
5% Loan, Vote 377, 1925..	10,000,000 00
5% Loan, Vote 372, 1926..	10,000,000 00
5% Loan, Vote 336, 1929..	2,932,652 91
5% and 5½% Loans, Chapter 22, 1931..	29,910,400 85
5½% Loans, Chapter 6, 1932..	11,210,815 56
Temporary Loan 1930, repaid.. . . . .	.....
Temporary Loan 1930, repaid.. . . . .	.....
Less adjustment authorized..	1,666,897 57
Total Canadian National Railway Company..	\$ 96,936,971 75
Total Loans..	\$643,860,558 26

**Notes and Collateral Held*

None. Charge is on premises mortgaged October 4, 1911.. . . . .	.....
None. Charge is on premises mortgaged July 15, 1914.. . . . .	.....
4% Can. Northern Stock and Bonds..	\$ 12,500,000 00
Mortgages dated June 23, 1916.. . . . .	.....
6% Demand Notes..	497,566 80
6% Demand Notes..	33,012,414 32
6% Demand Notes..	27,203,003 65
6% Demand Notes..	40,031,122 27
6% Demand Notes..	53,008,779 65
6% Demand Notes..	50,259,312 47
6% Demand Notes..	46,691,634 60
6% Demand Notes..	5,700,000 00
4% Debenture Stock..	1,975,866 00
3½% and 4½% Debenture Stocks..	7,139,399 00
6% Demand Notes..	56,858,496 44
Miscellaneous Bonds and Debentures..	24,573,539 90
Miscellaneous Bonds and Debentures..	668,000 00
Miscellaneous Bonds and Debentures..	20,721,191 12
Mortgage dated November 16, 1917.. . . . .	.....
6% Demand Notes..	25,479,226 97
6% Demand Notes..	56,646,816 12
4% G. T. Pacific Mortgage Bonds..	10,000,000 00
6% Demand Notes..	23,288,747 15
4% Demand Notes..	15,000,000 00
4% G.T.P. Debentures..	15,000,000 00
4% Debenture Stock..	60,801,700 00
6% 2nd Mortgage Equipment Bonds..	1,693,113 33
3% 1st Mortgage Bonds..	33,048,000 00
4% Sterling Bonds..	7,499,952 00
Mortgage, June 28, 1916.. . . . .	.....
Mortgage, Oct. 18, 1917.. . . . .	.....
Mortgage, Oct. 18, 1917.. . . . .	.....
Receiver's Certificates..	53,339,162 74
Cremation Certificate, coupons destroyed..	8,698,170 42
Cremation Certificate, coupons destroyed..	2,925,723 88
Grand Trunk Pacific Development Company Capital Stock..	2,999,000 00
6% Canadian Northern Demand Notes..	12,655,019 57
G.T.P. Receiver's Certificates..	3,313,530 01
G.T.P. Interest coupons..	1,925,706 96
5% Canadian Northern Demand Note..	1,318,315 86

	G.T.P. Receiver's Certificates..	4,691,173 58
	G.T.P. Interest coupons..	1,925,706 96
5%	Canadian Northern Demand Note..	9,496,718 21
	G.T.P. Receiver's Certificates—Cr...	1,422,425 17
	G.T.P. Interest coupons..	1,925,706 96
5%	Canadian Northern Demand Note..	9,062,624 30
	G.T.P. Receiver's Certificates—Cr...	364,898 78
	G.T.P. Interest coupons..	1,925,706 96
5%	Canadian National Railway Company Demand Notes..	2,932,652 91
5% and 5½%	Can. Nat. Ry. Co. Demand Notes..	29,910,400 85
5½%	Canadian National Ry. Co. Demand Notes..	11,210,815 56
	166,877-6376 shares of Capital Stock of Grand Trunk Western Railroad	4,171,940 94
5%	1st and General Mtge. Temporary Gold Bonds of Central Vermont Railway, Inc...	8,609,000 00

*The notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping at the Bank of Canada, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st Mortgage Bonds in the amount of £5,307,000 (\$25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depository.

There is a schedule appended to that balance sheet which gives a summary of the indebtedness transferred from the government to the Securities Trust. We all examined that last year. Do you think we need to go through it again this year?

Mr. CLARK: The second and third pages there cover the same point.

The CHAIRMAN: Yes, I notice schedule (A) goes on two pages.

Mr. YOUNG: I would just like to ask about the interest rate on all of these loans. I see a lot in connection with which 6 per cent is indicated as now being paid.

Hon. Mr. HOWE: There is no interest being paid or accrued on this.

Mr. YOUNG: Not on this?

Hon. M. HOWE: No.

The CHAIRMAN: Carried.

Mr. HOWARD: Might I ask as a matter of information where this mileage is between 35·4 and 59·46 on the North Lake sub-division?

Mr. ARMSTRONG: That is west of Port Arthur.

Mr. HOWARD: And on the Orono sub-division?

Mr. ARMSTRONG: That is just north of the main line between Belleville and Trenton. It is part of the old Canadian Northern trackage.

Mr. HOWARD: And on that Bethel Granite?

Mr. ARMSTRONG: That is on the Central Vermont Railway, in Vermont.

Mr. HOWARD: Down near Barre?

Mr. ARMSTRONG: Yes.

Mr. HOWARD: All right.

The CHAIRMAN: Carried.

Thank you very much, Dr. Clark.

Hon. Mr. HOWE: Just before Dr. Clark goes I would like to put on the record a statement relating to the remarks made by Mr. Walsh just before closing. Mr. Walsh left the impression—I am glad to see that he is coming in—he left the impression that through great extravagance in the years 1923 to 1930 a great load had been placed on the tax-payers of Canada. I just wanted to read the record of the public debt in those years. The net debt of Canada and the interest on it from 1923 to 1929 is as follows:—

DEPARTMENT OF TRANSPORT

CHANGE IN NET DEBT OF CANADA, AND INTEREST ON PUBLIC DEBT

Year	Net Debt of Canada	Interest on Public Debt
1923..	\$2,453,776,869	\$137,892,735
1924..	2,417,783,275	136,237,872
1925..	2,417,437,686	134,789,604
1926..	2,389,731,099	130,691,493
1927..	2,347,834,370	129,675,367
1928..	2,296,850,233	128,902,945
1929..	2,225,504,705	124,989,950

You will see from that statement that in 1923 the net debt of Canada was \$2,453,000,000; in 1924 it was \$2,417,000,000; in 1925 it was \$2,417,000,000; in 1926 it was \$2,389,000,000; in 1927 it was \$2,347,000,000; in 1928 it was \$2,296,000,000 and in 1929 it was \$2,225,000,000, and in 1930 it was further reduced to \$2,177,000,000.

For the period from 1930 to 1937 the figures are as follows:—

Year	Net Debt of Canada	Interest on Public Debt
1930..	\$ 2,177,763,959	\$ 121,566,213
1931..	2,261,611,937	121,289,844
1932..	2,375,846,172	121,151,106
1933..	2,596,480,826	134,999,069
1934..	2,729,978,141	139,725,417
1935..	2,846,110,958	138,533,202
1936..	3,006,100,517	134,549,169
1937..	3,083,952,202	137,410,343

NOTE 1: Figures for "Net Debt" taken from Page 56 of Public Accounts for Canada for year ending March 31, 1937; figures for "Interest on Public Debt" from Annual Reports.

NOTE 2: Figures for the "Net Debt of Canada" are used rather than those showing the actual Funded Debt Outstanding as the latter does not include cash available from proceeds of bonds floated.

From 1931 up to 1937 the figures show an increase, I do not think anyone could say it was increased solely on account of the losses on the railway, because there were large relief expenditures in that period.

However, it is rather interesting to note—speaking of the load on the taxpayers—that the interest paid in 1923 was \$137,000,000 and the interest paid in 1937 was also \$137,000,000.

Mr. WALSH: What is the total in 1937?

Hon. Mr. HOWE: The total of the public debt?

Mr. WALSH: Yes.

Hon. Mr. HOWE: \$3,083,000,000. It has gone up steadily from 1931; but it went down steadily from 1923 to 1930, the years that you referred to as the extravagant years.

Mr. WALSH: Could the minister tell us what proportion of that national debt is represented by accumulated debt of the Canadian National Railways?

Hon. Mr. HOWE: No. But I have reason to believe that it is no very considerable proportion.

Mr. WALSH: It is not a very considerable proportion of the three billion dollars?

Hon. Mr. HOWE: No.

Mr. WALSH: Represented by government bonds?

Hon. Mr. HOWE: No. \$1,700,000,000 is represented by war expenditures directly and it is so stated in the public accounts. There is an increase of about \$800,000,000 in the years 1931 to 1937, but I have reason to believe that a great deal of that is due to relief expenditures and extraordinary public works brought on through relief expenditures.

Mr. WALSH: It would have been interesting if you had compiled those figures, and alongside them put the amount of that which the Canadian National Railways were responsible for; then we would actually see what it is.

Hon. Mr. HOWE: The reason is that the figures that you gave contained so much that was not real money—interest on interest and interest on losses back towards Confederation days, which is purely a paper charge, as I tried to point out last year and which you are still not ready to accept.

Mr. WALSH: No.

Hon. Mr. HOWE: This is real money we are talking about now that the Dominion owes.

Mr. WALSH: But the government hand money and all that that I was reading this morning, which is represented by money handed to the Canadian National Railways on which we are paying interest, even if we do write off the amount that we have paid.

Hon. Mr. HOWE: You cannot write off Dominion government obligations unless you pay them.

Mr. WALSH: We have written them off as far as the railways are concerned. You wrote off how much last year?

Hon. Mr. HOWE: We wrote off about one and a half million dollars of fictitious money.

Mr. WALSH: Well, fictitious amounts.

Hon. Mr. HOWE: But we added nothing to the national debt last year either.

Mr. WALSH: No, but all that is represented by cash.

Hon. Mr. HOWE: We just wrote off some figures we had on the books.

Mr. WALSH: But it was money expended, was it not?

Hon. Mr. HOWE: No.

Mr. WALSH: At one time?

Hon. Mr. HOWE: No. It was interest accrued on money lost. That is what it was.

Mr. WALSH: Interest accrued on money advanced—loans?

Hon. Mr. HOWE: Money lost. It was not advanced. It was lost. In any case, I would like to put that on the record so that the disconsolate taxpayers can get some comfort.

Hon. Mr. STEWART: Would the minister permit me to ask him a question and to ask him to amplify that statement somewhat. As I recall it, in the early days of public ownership on the Canadian National Railways, the deficits were advanced and put into the budget. All the money was raised directly for the purpose of meeting these deficits. Then as I recall it there was an amendment to the Act, probably about 1923 or 1924.

Hon. Mr. HOWE: In the early days it was advanced as an interest-bearing advance.

Hon. Mr. STEWART: Yes. It was advanced by the Dominion of Canada to the railway.

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: For railway purposes.

Hon Mr. HOWE: Yes.

Hon. Mr. STEWART: And then, as I recall it, about 1923 or 1924, an amendment was made which permitted the railway companies to go out and borrow and Canada guaranteed it.

Hon. Mr. HOWE: You mean for capital purposes?

Hon. Mr. STEWART: Yes, for capital purposes.

Hon. Mr. HOWE: Yes, for capital purposes.

Hon. Mr. STEWART: Now, parallel with the statement that the minister has given as to the reduction of debt over the period of years which he has mentioned, and which we have often heard about, it would be interesting to give a statement showing the extent—

Hon. Mr. HOWE: Of the increase of railway debt?

Hon. Mr. STEWART: —to which the increase in railway debt has taken place, that debt being guaranteed by the Dominion.

Hon. Mr. HOWE: But my point is that that debt is in the statement of the railways.

Hon. Mr. STEWART: In the old days it was, as I have said, dug up in cash. Then an amendment was made in the Act that permitted the railway company to go out and borrow money for capital purposes.

Hon. Mr. HOWE: Quite.

Hon. Mr. STEWART: And the dominion government guaranteed it; whereas if that change had not been made in the Act the dominion would have gone out and borrowed the money for railway purposes; and it would have shown an increase in the debt which would have to a very great extent, if not entirely, offset the reduction which the minister has properly pointed out took place under the changed circumstances.

Hon. Mr. HOWE: But you are not suggesting that the money so borrowed since 1923 was hidden from the public?

Hon. Mr. STEWART: No.

Hon. Mr. HOWE: Or that there is any deception in connection with these public accounts?

Hon. Mr. STEWART: No.

Hon. Mr. HOWE: I am simply meeting Mr. Walsh's charge of deception there, that we are not giving the public a true picture of the situation.

Hon. Mr. STEWART: My contention is still sound: if that change of policy had not been made, that money would have been borrowed by the Dominion of Canada direct and would have appeared in the public debt.

Hon. Mr. HOWE: Quite. The public debt would have been greater and the railway debt would have been less.

Hon. Mr. STEWART: Yes, exactly.

Hon. Mr. HOWE: Yes. But, in any case, even if they had done that, the two figures would have represented it.

Hon. Mr. STEWART: In the end, one largely offsets the other.

Hon. Mr. HOWE: I think that the hon gentleman has missed my point there. I am not trying to conceal anything which the books disclose.

Hon. Mr. STEWART: I am not suggesting that.

Hon. Mr. HOWE: I am trying to suggest that there is nothing concealed in the whole picture there. If you add the debt as shown in the public accounts and the debt of the railway, you get the combined debt of the Dominion of Canada and the railway; and the figures that Mr. Walsh is referring to are not real money as far as the debts of either are concerned.

Hon. Mr. STEWART: Would the minister give the combined debt of the railway and the Dominion at the beginning of the period when it starts and the combined debt of the railway and the Dominion at the end of the period to which he refers?

Hon. Mr. HOWE: I can do that very easily, if you like.

Hon. Mr. STEWART: That is what I would like to have, to make the picture complete.

Hon. Mr. HOWE: Would you do that at the next meeting.

The CHAIRMAN: While you were away, Mr. Walsh, we dealt with the Securities Trust; and Dr. Clark explained the power and the legal opinion that he obtained from the Department of Justice that this item of \$711,732 was quite a proper charge. You will see that in the record.

Mr. WALSH: Yes. The point I was making with Dr. Clark was this: In the public accounts of Canada, March 31, 1937, on page 6, there are certain items of write-down of assets, write-down of active assets and so on. I presume these amounts recorded there are voted in parliament—is that right—and that they appear in the public accounts of Canada?

Mr. CLARK: Yes.

Mr. WALSH: Here is an amount of \$711,000 that is being eliminated as far as an asset is concerned from the Canadian National Railways and the presumption is—I have been led to believe that that amount is not to be voted in parliament. There will be no record in the public accounts of Canada of \$711,732.21 that had been written off.

Mr. CLARK: It is in the railways statement and the Securities Trust statement.

Mr. WALSH: I am not strenuously objecting to the \$711,000 being handled in the way it is, providing the Minister of Finance enters it as he has entered other items on page 6 of the public accounts, and has it regularly voted in parliament, so that the members of parliament and the people of Canada will know about it. As you know, this book is the one that is generally held in newspaper offices and local libraries for reference, and there is no reference in this book at all to that write-off of \$711,000; and my contention was before this committee that that is what should be done and that the Minister of Finance should come not only for the \$42,000,000 odd cash deficit but should also come for an amount of \$711,000 as a write-off of active assets on the Canadian National Railways. It does not represent any cash. It would not make any difference in the cash statement; but the record would be there in the public accounts of Canada, and we would see it. That was the point I was trying to make. I do not know whether my point is well taken or not.

Mr. CLARK: The write-offs of which you speak, Mr. Walsh, as shown on page 6 of the public accounts of last year, refer to write-offs of the items that are active assets in the public accounts already. If you go back to page 2 of the public accounts, you will see "Soldier and General Land Settlement Loans" as active assets. We cannot transfer those to consolidated fund or even to non-active assets without specific appropriation by parliament. In this particular case, what has been written down is not a specific asset in the active assets of the Dominion, the balance sheet of the Dominion; it is an asset in the railway's books. They are writing down their property account due to line abandonments. And that is to be reflected in the proprietor's equity, which is required to be shown in the railway's accounts as a result of the Capital Revision Act.

In regard to your last point, there will be a complete statement of all of these things in the historical cost appendix that will appear in the public accounts for the last fiscal year. It will be there, and it is already, of course, shown in the railway's accounts and in the Securities Trust accounts. You will

get it in the public accounts that will be published about the beginning of the new year.

Mr. WALSH: It is the first time it will appear in the accounts?

Mr. CLARK: Yes. As Mr. Walsh was not here when I read the legal opinion given by the Deputy Minister of Justice, I might say to Mr. Walsh that the Deputy Minister of Justice says that the Minister of Finance has not only the power, but it is his duty to handle this item in the way it has been handled in the accounts.

Mr. WALSH: Who gave that legal opinion?

Mr. CLARK: The Deputy Minister of Justice.

Mr. WALSH: The same gentleman that we hear referred to in the House of Commons?

Mr. HOWARD: Besides that, if you look on page 12 of The Canadian National Railway report, you will find the item right in there, "line abandonment as above charged to proprietor's equity, \$711,732.21."

Mr. CLARK: It is there and it is also in the Securities Trust.

The CHAIRMAN: It is shown in three places.

Mr. WALSH: It is well shown so far as the Canadian National is concerned, but it should be shown in the public accounts.

On the first page of your report it says:—

Interest accruing after December 31, 1936, on the principal of the loans included in the Indebtedness to His Majesty was waived by the Securities Trust until further ordered by the trustees, and this action was approved by the Governor in Council.

On what authority did the Securities Trust act in waiving the interest? Can they quote the authority?

Mr. CLARK: I think, Mr. Walsh, I might read the Order in Council passed in reference to that. It is P.C. 407, dated February 26, 1938:—

The committee of the Privy Council have had before them a joint memorandum from the Minister of Finance and the Minister of Transport stating:—

1. That pursuant to authority contained in The Canadian National Railways Capital Revision Act, 1937, the transfer to The Canadian National Railways Securities Trust of the indebtedness to His Majesty in exchange for the capital stock of the Securities trust has been duly made.
2. That section 21 of the said Act provides that the Securities Trust shall not sell, pledge, release or otherwise dispose of any of the indebtedness to His Majesty transferred to the Securities Trust or the collateral securities held in respect thereof, except with the approval of the Governor in Council.
3. That the trustees of the Securities Trust at a meeting held at Ottawa on January 25, 1938, passed a resolution reading as follows:—

Resolved that the interest accruing after December 31, 1936, on the principal of the loans included in the indebtedness to His Majesty, as defined in section 2 (c) of Chapter 22 of the Statutes of Canada, 1937, and transferred to The Canadian National Railways Securities Trust be waived until further ordered by the trustees.

4. That the Securities Trust was established for the sole purpose of preserving the priority rights of the Dominion, and for its protection against any contingencies of the future having to do with potential interest and other savings in respect of certain unguaranteed securities and subsidiary company capital stocks held by the public; that

the claims outstanding on December 31, 1936, namely, \$643,860,558.26 for principal and \$574,781,637.01 for interest appear to safeguard more than amply the position of the Dominion in respect of such contingencies; that interest on the Indebtedness to His Majesty referred to above has never been accumulated by the Dominion or appeared as an asset in the Public Accounts, and that the action proposed by the trustees is in complete accordance with the intent of the Act.

The committee concur in the foregoing and, on the joint recommendation of the Minister of Finance and the Minister of Transport submit the same for your Excellency's approval.

The committee concur in the foregoing and, on the joint recommendation of the Minister of Finance and the Minister of Transport submit the same for your Excellency's approval.

In other words, the authority is The Capital Revision Act, and the considerations of policy are the considerations which I have just enumerated, three or four of them, in Clause 4 of that order in council.

Mr. WALSH: Last year I presume your authority was based on The Capital Revision Act, Chapter 22, section 21, "The Securities Trust shall not sell, pledge," etc. It was not brought before this committee or before parliament that the Securities Trust had the privilege of doing what they have done in regard to interest. It does not mention any interest here, although I presume it might be inferred somewhat by the words "dispose of any of the indebtedness to His Majesty transferred to the Securities Trust...." Interest was not suggested there. It was certain collateral that was transferred. Section 21 continues, "or the collateral securities held in respect thereof, except with the approval of the Governor in Council." Of course, I am not a lawyer. We have one or two lawyers here who are very apt and who probably can read into this what I cannot read into it; but I cannot read into that anything in the way of interest that gives the Securities Trust authority to waive interest.

Mr. CLARK: Again I might quote the opinion of the Deputy Minister of Justice in respect of that point given under date of January 20, 1928:—

I have had under consideration your letter of the 17th of December, 1937, in which you ask to be advised whether the trustees with the approval of the Governor in Council may release the railway company for an indefinite period from its obligation to pay interest on the principal amount of the indebtedness transferred, and am of opinion that this question is to be answered in the affirmative.

I am unable to construe any of the section to which you have drawn my attention as being inconsistent with this view.

Mr. WALSH: That is his opinion, but just as a layman it should have been put in there. It should have been mentioned specifically.

Mr. McLARTY: Mr. Chairman, might I ask Mr. Walsh if any member of this committee assumed that the securities transferred to the trustees under the Act could possibly bear interest?

Mr. WALSH: They would not bear interest, but they could accrue interest.

Mr. McLARTY: Yes, but was it even contemplated that they might?

Mr. WALSH: No, but it was contemplated that the Securities Trust would show in their balance sheet from year to year the amount of interest. This year there should be added on Page 6 of the Canadian National Securities Trust balance sheet an item of roughly \$36,000,000.

Mr. McLARTY: Were they not equities?

Mr. WALSH: This was interest.

Mr. McLARTY: No equity bears interest, unless it might be guaranteed, funded or some other kind of debt. No interest accumulates. If it is purely a matter of equity, no interest accrues, it is a matter of dividends. Unless they are declared, no interest would accrue.

Mr. CLARK: Interest never accrued even in the public accounts of the Dominion. While the Minister of Finance held this indebtedness he never accrued interest in the accounts of the Dominion. When this trust was set up he merely transferred this indebtedness to the trust to be held in order to protect certain equities or claims against other security holders in case of anything that might arise in the future. You merely take this indebtedness out of the hands of the Minister and you put it in the hands of the Securities Trust to be still held, although no one regards it as having very much value. The indebtedness, when held by the Minister, on account of the Dominion of Canada, never accrued interest, and the Securities Trust is just following the practice which the Minister had followed. Are they not all equities that were transferred?

Mr. WALSH: No, loans.

Mr. CLARK: No.

Mr. McLARTY: Straight loans?

Mr. CLARK: Not equities in form at any rate, but they are now proprietors equity. They represent proprietors equity.

Mr. McLARTY: In other words they were not a definite debt which of themselves, if not transferred, would bear interest or had borne interest for some years before?

Mr. WALSH: They are bearing interest.

Mr. CLARK: In form, they were interest bearing, yes.

Mr. McLARTY: But not in fact?

Mr. CLARK: No. The government had never accrued interest on them.

Hon. Mr. HOWE: I might say in explaining the Act of last year I said: "As between the government and the railway the plan preserves in full all capital sums invested by the Dominion in the railway, preserves all capital sums, any amounts to be eliminated relate to losses in operation and interest charges." In other words the intention was to preserve the capital sum invested by the Dominion in the railways, which we did, of course, in the amount of the proprietors' equity as shown in the balance sheet; but we eliminated losses in operation and interest charges.

Mr. WALSH: While Dr. Clark is here I should like to refer to an item in the balance sheet of \$574,781,637.01, which represents claims for interest on loans as specified. They have been accumulating year by year. They now represent an amount of actual cash as paid out by the Minister of Finance for these loans. He cannot expect the Canadian National Railways, naturally, to pay them as they have no money to pay them with. So they are a debt that cannot be collected; nevertheless they represent a debt. Now, here in the Canadian National report we had the interest charges accumulated. Last year they came to something over \$36,000,000. This year, if you compute them, they would come to something in the neighbourhood of \$36,000,000. Now, that should be added to your \$574,000,000 odd in order to keep the account of the Securities Trust complete and up to date. I do not think personally, and I have to bow to the judgment of the Deputy Minister of Justice in this respect, but I am still not persuaded the Securities Trust had authority to waive the interest. I still feel they did not act wisely in waiving interest. It should have been shown in the form of paying that additional interest on your \$574,000,000 odd, and then your \$1,218,000 would have been increased by \$36,000,000, and then you would have had the real figure there representing what the Minister is actually paying out. The Minister this year, I understand, is paying out a

sum equivalent to about \$36,000,000 of interest for these various loans and bonds in the combination known as the Canadian National Railways.

Now, he is actually paying that out. The Securities Trust is waiving that.

Hon. Mr. HOWE: To whom did he pay it out? To whom did the Minister pay the \$36,000,000?

Mr. WALSH: As far as we are concerned, and as far as the government and the Securities Trust is concerned it is a book item pure and simple; but he is paying it to the people who hold these bonds, that is, the Canadian Northern Railway, the Grand Trunk Railway and the Grand Trunk Pacific, the Canadian National, bonds and loan and advances, for which he has borrowed money.

Hon. Mr. HOWE: He owns these bonds; he would be paying it to himself.

Mr. WALSH: He is paying it out of the public treasury.

Hon. Mr. HOWE: The Minister of Finance and the Securities Trust own these bonds themselves.

Mr. WALSH: Yes, he owns them, but they are accumulating interest. Interest is being paid on them.

Hon. Mr. HOWE: To whom?

Mr. WALSH: To the person who holds the bonds.

Hon. Mr. HOWE: The Minister of Finance holds the bonds.

Mr. WALSH: He does not hold the bonds on which interest is being accumulated, under this Act.

Hon. Mr. HOWE: Yes he does. He owns every security that is in the Securities Trust.

Mr. WALSH: I know he does. This is interest paid on outstanding loans.

Hon. Mr. HOWE: You mean direct loans to the Canadian National Railways shown in the balance sheet?

Mr. WALSH: Yes, this \$570,000,000 has an accumulation of interest over a long period of time.

Hon. Mr. HOWE: Quite so, to the Dominion government.

Mr. WALSH: When you refer to last year's report of the railway you will find interest \$36,000,000 odd.

Hon. Mr. HOWE: I know. That was owed by the railway to the federal government.

Mr. WALSH: Yes. The railway had borrowed through the federal government this amount of money.

Hon. Mr. HOWE: From the federal government, not through.

Mr. WALSH: It is only a bookkeeping item but nevertheless why not have it where we used to have it? We have kept it from year to year and this year it is waived. I shall leave that point for the moment. There is another point to which I should refer while Dr. Clark is here. I presume he has not computed the interest accrued on government loans for 1937, which was waived. How much actually was waived?

Mr. CLARK: I have not computed that figure. I have not that here. As I said before, we never set that up—

Mr. WALSH: Was it not in the account last year?

Mr. CLARK: In the railway accounts, but not in our account.

Mr. WALSH: The Securities Trust is a creation and result of the act of this committee last year through Bill No. 12. You are the creation of the action of this committee and of parliament. You took over certain outlays, and in the Canadian National report of last year we had that interest of \$36,000,000 odd, and it is not here this year. I was wondering how much it

amounted to this year. You waived the interest. Did you know how much you were waiving? Was it \$1 or thirty millions?

Mr. CLARK: I do not know what significance it would have, Mr. Walsh. It would be very easy to calculate the interest, but it seems to me to have no significance whatever. The reason why the government and why the Minister of Finance did not accrue it on their books was the reason that gave the justification for the action that was taken last year. The government has obtained the ownership of the Canadian National Railways and did that some years ago. For certain reasons, however, for some years the form of assistance given to meet deficits was given by way of interest bearing loans. No private owner or group of stockholders would account for their transactions in the way that the railway has had to account for it in the past.

Mr. HOWARD: Of course not.

Mr. CLARK: This Act last year recognized that the government was a proprietor and that its accounts and the railway accounts should be set up to give effect to that fundamental fact. Now, if you go on accruing interest on loans that were given for deficits and to which there is not a chance of the interest ever being paid, it is just ridiculous. It was regarded as being ridiculous from the government's point of view. When you make the Securities Trust hold the claims that the Minister was holding before, the Securities Trust, it seems to me, is entitled to follow exactly the same procedure as the Minister of Finance has followed in reference to the Dominion accounts.

Mr. WALSH: You know how the Minister of Finance met the obligation to the Canadian National Railways.

Mr. McLARTY: In other words, if you accumulated interest on which there was no chance of payment from year to year it would be merely writing it on the cuff, and the assets of the securities holding corporation would go up; but on the other hand there would be no prospect of ever realizing on those assets eventually. In other words, it would be unfair bookkeeping.

Mr. WALSH: It would be fair bookkeeping.

Mr. HOWARD: No, unfair.

Mr. McLARTY: You would be capitalizing assets that were not realizable.

Mr. CLARK: It would not be in accord with the action taken last year under this Act by parliament. The Act of parliament resulted in this fact, that from last year the government is to be recognized as the proprietor of the railway, and not as a lender to the railway and creditor of the railway in regard to loans made for deficit purposes. Now, if you made the railway in its accounts and the C.N.R. Securities Trust continue to accumulate interest in reference to those old claims then you would be retaining the fiction that the government is a creditor rather than a proprietor with reference to those loans made for deficit purposes.

Mr. HOWARD: And you do just the same thing in business.

Mr. CLARK: Yes.

Mr. WALSH: Probably that is why business is as it is to-day if they do it in that way to-day. I was always sorry for business.

Mr. McLARTY: If you could capitalize unrealizable assets as real assets I imagine business would not be as prosperous as it is to-day.

Mr. HOWARD: Those advances represent losses and you do not accrue interest on losses, is that the idea?

Mr. CLARK: Yes.

Mr. WALSH: The amount of money you actually waived according to my computation was \$36,428,873.

Mr. HOWARD: It was not any such thing at all. I take objection to that. These are the facts. It states plainly enough it was with interest accruing after December 31st, future interest. They decided they were not going to accrue it any longer.

Mr. WALSH: Why do you suggest that the figures are not the fact?

Mr. HOWARD: Because it is not accrued. It is the same thing. You do not like business, but let us look at the banking situation. Take a loan in a bank for payment inside of a year, if the debtor is not able to meet his interest payment the bank has no right to capitalize it as an asset and they cannot show it in their statement to the government; and it is business practice all over the country to do exactly what is being done in this case.

Mr. WALSH: I know that is not the way banks do business. I have had sufficient dealings with them to do that. In the light of the action taken cancelling interest accruing for 1937—this is a hypothetical question—have the trustees any intention of cancelling past accrued interest and principal on loans entrusted to them?

Mr. CLARK: No.

Mr. WALSH: Have you decided on any policy in that respect?

Mr. CLARK: No.

Mr. WALSH: Have you had any interpretation of the Act in that respect?

Mr. CLARK: No. We have no such policy and, therefore, have not raised the question of getting an opinion with reference to it.

Mr. WALSH: You have not cancelled the 1937 accrued interest?

Mr. CLARK: We have done exactly what the Minister of Finance did previously.

Mr. WALSH: You do not intend to cancel the accrued interest of the past nor the principal or any part of the principal of loans that have been entrusted to your care?

Mr. CLARK: There has been no consideration given to that point by the trustees of the trust.

The CHAIRMAN: Shall the item carry—
Carried.

The CHAIRMAN: Mr. Armstrong, will you read the report of the Canadian National Steamships Limited.

Mr. ARMSTRONG: This is the annual report addressed to the Hon. C. D. Howe, Minister of Transport at Ottawa, and is as follows:—

SIR,—On behalf of the directors, I beg to submit the annual report of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31st, 1937. The improvement in the company's business noted in the 1935 and 1936 annual reports continued during 1937.

The comparative operating results are as follows:—

	1937	1936	Increase	Per cent
Operating Revenues.. . . .	\$4,676,684 10	\$4,322,592 65	\$354,091 45	8.19
Operating Expenses.. . . .	4,018,146 35	3,765,194 10	252,952 25	6.72
Operating Profit.. . . .	\$ 658,537 75	\$ 557,398 55	\$101,139 20	

Operating revenues increased \$354,091. The number of completed voyages was 127, one less than in the preceding year. Freight revenue increased by \$220,932, reflecting better cargoes. The number of stems of bananas carried in 1937 by the vessels in the Eastern Service was 400,812, an increase of 15,672 stems over 1936. The vessels in the Western Service (Jamaica) carried 2,048,830 stems, an increase of 191,739 stems over 1936. Passenger travel was again exceptionally good, and passenger revenue increased by \$157,770.

Operating expenses increased \$252,952 or 6.72% as compared with an increase of 8.19% in revenue, due to a general increase in operating costs, the handling expense of additional traffic, and renewals and replacements necessary to maintain the vessels in a high state of efficiency.

After payment of bond interest, but before depreciation and interest on government advances, there is available \$188,537.75 which will be paid to the government in reimbursement in part of prior deficits and interest. The corresponding figure in 1936 was \$87,398.55.

The vessels of the fleet were operated without serious casualty. The self insurance fund now stands at \$1,424,292, an increase of \$48,975 during 1937.

Acknowledgement is made of the loyal and efficient service rendered by the company's officers and employees, both ashore and afloat.

For the Directors,

S. J. HUNGERFORD, *President*".

THE CHAIRMAN: Do you want to consider the balance sheet in detail? You might as well go on to the balance sheet, Mr. Armstrong.

MR. ARMSTRONG: (reads)

CONSOLIDATED BALANCE SHEET

At 31st DECEMBER, 1937

ASSETS

Investments—

Vessels at 31st December, 1936..	\$10,942 895 99	
Additions during year..	11,796 95	
	<hr/>	
	\$10,954 692 94	
Plant and Equipment..	7,019 28	
Office Furniture and Fixtures..	18,092 45	
	<hr/>	\$10,979,804 67

Current Assets—

Cash in Banks..	\$890,882 96	
Special Deposits	8,025 00	898,907 96
	<hr/>	
Accounts Receivable..	152,397 31	
Agents..	141,496 11	
Inventories of Stores and Supplies..	22,437 63	
Advances to Captains, Crews and Agents..	24,678 47	
Amount due from Canadian National Railways Joint Insurance Fund	107,263 53	1,347,181 01
	<hr/>	
Insurance Fund..		1,424,291 99
Balance of Uncompleted Voyages..		32,130 72
Discount on Funded Debt..		53,122 19
Discount on Capital Stock..		40,000 00
		<hr/>

\$13,876,530 58

LIABILITIES

Capital Stock:

Authorized and Issued 400 Shares of \$100.00 each \$ 40,000 00

Funded Debt:

25 Year 5% Dominion of Canada Guaranteed Gold Bonds.. 9,400,000 00

Dominion of Canada Account:

Notes Payable secured by Mortgages on Vessels \$ 933,071 83

Advances:

Capital \$ 682,542 70
Working Capital.. . . . 450,000 00
Deficits 5,059,960 94

6,192,503 64

Interest Accrued Unpaid 1,925,286 49 9,050,861 96

Current Liabilities:

Dominion of Canada \$ 188,537 75

Canadian Government Merchant Marine, Limited 21,570 81

Accounts Payable 315,416 34

Interest Matured Unpaid 8,025 00

Unmatured Interest Accrued 156,666 67

Passage Money paid in Advance 210,454 43

Insurance Claims 70,192 87

970,863 87

STANDING COMMITTEE

Insurance Reserve.. .. .	1,424,291	99
Accrued Depreciation.. .. .	2,733,239	21
Profit and Loss— <i>Deficit</i>	9,742,726	45
	<hr/>	
	\$13,876,530	58

Contingent Liability—No contingent reserve is accrued for Pensions. Actual pension payments are charged currently to operating expenses.

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1937.

We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Steamships as at the 31st December, 1937, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1937, are correctly stated.

GEORGE A. TOUCHE & CO.,

10th March, 1938.

The CHAIRMAN: Any more remarks, gentlemen?

Mr. YOUNG: In what form was that insurance reserve carried?

Mr. COOPER: For the most part Dominion guaranteed securities and securities which are a direct obligation of the Dominion. There are some others but not any substantial amount.

Mr. YOUNG: Is the same true with regard to the depreciation fund?

Mr. COOPER: No, sir; there is no fund representing the depreciation reserve.

Mr. HOWARD: How many vessels are there in the service?

The CHAIRMAN: You will find that in the back of the report.

Mr. EMMERSON: I see that additions during the year amount to \$11,796.95. What does that consist of?

Mr. COOPER: \$9,525 spent for echo sounding machines; \$2,271 for air compressors and tube scalers.

The CHAIRMAN: Let us have the profit and loss account.

Mr. ARMSTRONG:

Balance at 31st December, 1936—Deficit.. . . .	\$9,078,880 63
Repayment to the government of the 1935 Cash Deficit.. . . .	\$269,969 17
Less repaid in 1936.. . . .	87,398 55
	182,570 62
Loss as per Income Account year 1937... . .	481,275 20
Balance at 31st December, 1937—Deficit.. . . .	\$9,742,726 45

Carried:

Mr. ARMSTRONG: Then there is the consolidated income account. Operating revenue—

The CHAIRMAN: Do you need to read all that? I do not think so.

Mr. ARMSTRONG (reads):

CONSOLIDATED INCOME ACCOUNT

	Year 1937	Year 1936
Operating Revenue:		
Vessels—Closed Voyages Freight.. . . .	\$3,160,986 66	\$2,940,054 69
Vessels—Closed Voyages Passenger.. . . .	1,271,921 71	1,114,151 78
Subsidies	226,693 76	223,463 26
Other revenues.. . . .	17,081 97	23,028 05
Special Voyage Revenue . . . . .	.....	21,894 87
Total Revenue	<u>\$4,676,684 10</u>	<u>\$4,322,592 65</u>

Operating Expenses:		
Vessels—Closed Voyages	\$3,851,556 02	\$3,626,614 51
Vessels—Lay Up	4,485 02	.....
Management and Office Salaries	80,796 85	58,862 24
Rent and Taxes	9,633 63	6,363 81
Office Supplies and Expenses	19,389 78	16,081 02
Advertising	50,119 52	50,353 34
Interest and Exchange	2,165 53	6,920 18
Total Expenses	\$4,018,146 35	\$3,765,194 10
1937 1936 .		
Operating Ratio	85.92%	87.10%
Operating Profit	\$ 658,537 75	\$ 557,398 55
Interest on Bonds held by Public	470,000 00	470,000 00
	\$ 188,537 75	\$ 87,398 55
Other Charges:		
Amortization of Discount	\$ 3,094 44	\$ 3,094 44
Interest due Government	338,431 63	330,281 95
Depreciation on Vessels	328,286 88	328,234 74
Net Income Deficit	\$ 481,275 20	\$ 574,212 58

Page 10 shows the list of the vessels and their tonnages and the assignment of the fleet during the year 1937 and the voyages completed.

Mr. HOWARD: I was going to ask how many employees are concerned in connection with this service on land and water offhand?

Mr. VAUGHAN: I would say somewhere around 900 people.

The CHAIRMAN: Any further questions?

Carried.

Mr. ARMSTRONG: Page 11 shows the regular sailings during the year 1937.

The CHAIRMAN: Shall the report carry?

Carried.

The CHAIRMAN: Gentlemen, will you refer to your pamphlet entitled Trans-Canada Air Lines for the year ended December 31st, 1937? I shall refer you to page 4. Do you desire that the whole report should be read?

Mr. HOWARD: No.

Mr. ARMSTRONG: The first annual report of the directors of the Trans-Canada Air Lines, year ended December 31st, 1937—

Mr. WALSH: I move that we dispense with the reading of this report and accept it as read.

Mr. HOWARD: I second that motion.

The CHAIRMAN: Shall we go on to the balance sheet on page 10?

Mr. YOUNG: Perhaps we could have a statement as to just what the present situation is? When will this service be in operation?

Hon. Mr. HOWE: Mr. Chairman, we started actual operations from Winnipeg to Vancouver on an experimental basis on March 4th of this year. The planes have been flying on reasonably regular schedules since then and carrying ordinary mail. The efficiency of the service has been gradually stepped up, but the main purpose was to try out the personnel—to train the personnel under actual operating conditions. Regular trips are being made once each day in each direction between Winnipeg and Vancouver at the present time. At the present time in addition I think we are trying night flying between Winnipeg and Regina, are we not, Mr. MacLaren?

Mr. MACLAREN: Yes.

Hon. Mr. HOWE: That is part of the regular training, and especially in connection with night flying between Winnipeg and Regina when the mail is also carried; but the real purpose of these flights is to give the pilots experience

in night flying. It is expected, I believe, that the express will be carried on May 15th; is that not so?

Mr. MACLAREN: May 15th.

Hon. Mr. HOWE: May 15th is set for commercial express, and at that time the mail contracts will be on a commercial basis. That is, instead of carrying ordinary mail as at the present time the line will go into a commercial business and carry air mail from Winnipeg to Vancouver. The operation is being pressed east as rapidly as facilities will permit. There is some work being done on the principal airways east of Winnipeg, and it is expected very shortly there will be regular flights carrying ordinary mail between Winnipeg and Kapuskasing. The work from Kapuskasing east will be somewhat later, depending on the completion of facilities there. It would not be wise to say just at what date we will have a complete airmail service, particularly as deliveries of equipment have been somewhat delayed; and putting the complete service into commercial operation depends upon further equipment deliveries which have been promised before this but which have not materialized to date. At the start of our work, our original purchase was five planes of the light Lockheed 12 type. They are in constant service. In fact, they are being pressed beyond their limit. I believe we now have deliveries of two of the ten Lockheed 14's which represent the very last word in aviation equipment, and we expect further deliveries of these as the weeks go by. We expect to have all our equipment not later than the 1st of September. At that time we will have ample equipment to perform the full trans-continental service.

Mr. YOUNG: How many passengers will each plane carry?

Hon. Mr. HOWE: Twelve passengers and two pilots, I believe.

Mr. MACLAREN: It is our purpose, Mr. Chairman, to restrict the number of passengers. The smaller planes which we have—the Lockheed 10's, capable of handling ten passengers—we intend to carry eight; and in the Lockheed 14's which will accommodate eleven passengers and three of a crew we intend to accommodate only ten.

Mr. YOUNG: With regard to the service in the provinces of Saskatchewan and Alberta, I suppose that will be inaugurated about the same time as the trans-Canada to carry passengers?

Hon. Mr. HOWE: That is the intention, yes.

Mr. WALSH: Mr. Chairman, I want to ask one or two questions in connection with trans-Canada air lines; but I want to assure the minister that I do so in all sincerity, and I not only speak from my own observation—

The CHAIRMAN: That is a bad beginning, Mr. Walsh.

Mr. WALSH: —but I speak from personal knowledge from other individuals when I say that the minister is showing considerable signs of favourable progress in the art of giving us a transcontinental air service. I believe that the minister is to be commended, and I want to take this opportunity of saying so. I have sometimes been called a rather severe critic, but I always feel when I am criticizing that it is not the person but the policy or the detail I am criticizing. However, in this case I do feel that the minister is making a very excellent job of a rather difficult task and is pushing the work forward to good advantage.

I wanted to ask a question. I notice that the member for Halifax is one of the interested spectators, and I was going to ask the minister if any progress has been made toward connecting up the Maritime Provinces with the actual trans-continental system beyond the point arranged in New Brunswick?

Hon. Mr. HOWE: Mr. Chairman, I can answer that. Of course, we have not got the service even as far as Montreal yet, so it is a little difficult to press the service beyond Montreal until we reach Montreal; but we are improving. We negotiated with the cities to improve the airports in the principal cities in the

maritimes and we expect that when the service can be pushed beyond Montreal, which will be shortly after we arrive at Montreal, we will have facilities there for the planes to land.

Mr. WALSH: You are not attempting to run these planes further than the point in New Brunswick?

Hon. Mr. HOWE: You mean?

Mr. WALSH: Are you going to give government service beyond—what is that point in New Brunswick? Beyond Moncton?

Hon. Mr. HOWE: I may say that we will not run the mainline equipment beyond Moncton, but we will have a satisfactory service connecting with the principal cities in the maritimes, the same as on the prairies.

Mr. WALSH: I wanted to raise that point. There is no political significance in it because the member for Halifax happens to be a Liberal, but I think there is a tendency to pass up these sparsely settled districts, districts which cannot be expected to give an adequate return for the service they expect to get. The Maritime Provinces not being as well settled as some of the other parts of Canada the operating expenses there would be greater. Integrally they are an important part of the Dominion and we must give them the same consideration that we give to British Columbia and every other part of the Dominion.

Hon. Mr. HOWE: Just by way of interruption; could I get my honourable friend to spend his next holiday in Port Arthur?

Mr. HOWARD: I do not see Port Arthur on this map.

Mr. WALSH: I was looking through a small file which I have in my office in connection with postal arrangements on the Trans-Canada airlines. I do not know exactly what it is but that arrangement suggests that by 1941 the cost of carrying the mail by the Trans-Canada air service will vary directly with the deficit or surplus of the preceding year on the Trans-Canada airlines.

Hon. Mr. HOWE: In other words, if we get a surplus on the whole organization the post office will pay just the net cost of the carrying of the mail.

Mr. WALSH: That section of that Act then has no reference to the cost of running the Trans-Canada air service, it merely refers to the cost of transporting the mail; is that it?

Hon. Mr. HOWE: The cost of transporting the mail, as provided in the Act, is the cost of the service less the earnings from passenger, express or any other source.

Mr. WALSH: That is what I wanted to get at. What that means is that any deficit created in the operation of the Trans-Canada air service will be charged against the Post Office Department, and any surplus would be to their advantage.

Hon. Mr. HOWE: There would not be any surplus.

Mr. WALSH: I think that is what the Duff report told us in 1922; that in a year or two we would be getting such service from the Canadian National Railways that the debt of Canada would be vanished almost within our lifetime.

Mr. HOWARD: Sure, it might pay it off.

Mr. WALSH: And the minister is now suggesting that there will be a surplus in connection with the Trans-Canada air service after 1940, and the postal department will get the benefit of that surplus.

Hon. Mr. HOWE: How can there be a surplus or a deficit when the rates are based on the cost of the service?

Mr. WALSH: Well, there might be one year and not another. However, you do not anticipate being forced to increase rates at any time on account of a deficit after the year 1940; is that correct?

Hon. Mr. HOWE: I think we can maintain it.

Mr. McKINNON: Does the Trans-Canada airline propose to operate anything outside of the mainline services?

Hon. Mr. HOWE: We propose to operate a service between Lethbridge and Edmonton, and we may or may not operate a service between Toronto and United States points.

Mr. McKINNON: But you recognize the general principle now that what are known as the bush services will not be interfered with?

Hon. Mr. HOWE: Not at all.

The CHAIRMAN: Gentlemen, do you desire to have all the details of that balance sheet read?

Mr. WALSH: Could the minister give us some statement on the association of the Trans-Canada airlines with the proposed Trans-Atlantic Service Corporation or company that is being developed?

The CHAIRMAN: That is the service which is coming to Rimouski.

Mr. WALSH: I think this government has acquired stock or is going to acquire stock in that.

Hon. Mr. HOWE: The British government, the government of the Irish Free State and the Canadian government entered into an agreement by which the possibility of crossing the north Atlantic by plane is being explored. The British government agreed to stand all the cost of the experimental flights and up to the time that the planes are crossing on a regular schedule for a period of three months. After that the service is being taken over by the company. In that company the British government will own 51 per cent of the stock, the Irish Free State will own $24\frac{1}{2}$ per cent and Canada will own $24\frac{1}{2}$ per cent. Each country will designate the operating unit in their respective country to assume responsibility for the service, and Canada will designate for that purpose Trans-Canada Airlines. Trans-Canada Airlines will own the portion that is allocated to Canada. But I may say there again that it is a guaranteed service and under the arrangement entered into the cost of carrying the mail will be provided for on the basis of the cost of the service, so that the Trans-Atlantic venture could never be a financial load either on the Trans-Canada Airlines or on the Dominion of Canada.

Mr. WALSH: It is rather a dangerous policy isn't it, to enter into an agreement where one body to the agreement owns 51 per cent of the stock and could dictate policy?

Hon. Mr. HOWE: We think not in connection with Great Britain which is our mother country. We think that neither the Imperial Airways, who are the actual operating company, nor the government of Great Britain would take advantage of their position in that connection.

Mr. WALSH: But they are in a position to dictate costs and personnel.

Hon. Mr. HOWE: Well, possibly; but in view of the fact that they are standing all the expense of pioneering the route we thought that was an equitable arrangement.

Mr. HANSON: I would like to ask the minister if any consideration has been given to the question of issuing free passes to people to use these airlines.

Mr. WALSH: I have a statement to make in that connection, and I hope the minister will absolutely and positively put his foot down on anything that even approaches a practice of that sort.

Mr. HANSON: You don't want to pay any attention to him, Mr. Chairman, because he said he would not dare to go up in an aeroplane anyway.

Hon. Mr. HOWE: I do not think that is what he said.

Mr. WALSH: I said that I would never be up in the air in an aeroplane in my life; but at the same time I do feel that if the minister just budges one

inch in that direction he is only going to make trouble for himself and Trans-Canada airlines.

Hon. Mr. HOWE: As I said in the house, there will be no passes on this line. The difficulty is, of course, that these machines seat only 12 or 14 passengers at the most and if a party of parliamentarians came along and took all the seats in the plane and put out the regular passengers we would have a serious complaint. There will be no passes for ministers or members of parliament or officers of the line. May I say that officers of the line have already refused passes from United States and other lines, and in view of that they will receive no passes over this line.

The CHAIRMAN: Are there any other questions?

Item agreed to.

Income Accounts. I presume it will not be necessary to read all the details of that part of the statement in view of the very complete statement which has been given to us by the minister.

Item agreed to.

Shall the report carry?

Carried.

Gentlemen, there are four statutory items in the main estimates that the minister is very anxious to get to as soon as possible. The Clerk has distributed copies of the main estimates and if you turn to page 49, item 427—Maritime Freight Rates Act. Shall the item carry?

Item agreed to.

Then, further down on the same page is item 428; Amount required to provide for payment from time to time during the fiscal year 1938-1939 of the difference, estimated by the Board of Railways Commissioners and certified by the said board to the Minister of Transport as and when required by him, occurring on account of the application of the Maritime Freight Rates Act—

Shall the item carry?

Item agreed to.

Then at page 52, item 437, Prince Edward Island Car Ferry and Terminals. This also is a statutory item. Shall the item carry?

Item agreed to.

Then there is item 438: Advances to Canadian National (West Indies) Steamships, Limited. Shall the item carry?

Mr. HOWARD: There is a decrease there of \$74,500.

The CHAIRMAN: Yes.

Hon. Mr. HOWE: That is simply authorizing them to stand tropical.

The CHAIRMAN: Shall the item carry?

Item agreed to.

Will you authorize me in a special report to the house to report these four items?

Special report agreed to.

Mr. WALSH: Before the meeting breaks up, have you given any consideration to the report of the auditors themselves?

The CHAIRMAN: Well, every one of these schedules that we have taken up, and all the balance sheets that we have reviewed have been certified to by them.

Mr. WALSH: They make certain recommendations which I think ought to be given some consideration.

The CHAIRMAN: I am quite willing.

Mr. WALSH: They are on page 2 of the auditors' report.

The CHAIRMAN: Do you want me to read through it?

Mr. WALSH: No, I don't want you to. There are two or three recommendations. Here is one on page 2, near the centre of the page:—

Two simple facts emerge from the capital revision:—

(1) the 1937 published accounts of the National System when consolidated with the Public Accounts of Canada will, for the first time (as now stripped of obscurities and duplications) produce the true combined debt position of Canada. This is obviously of such vital importance to Canada, as a borrowing country in the financial markets of London and New York, as to need no further comment.

The question I have here is: When will this consolidation take place and in what way will it be published or placed before this committee or parliament?

Hon. Mr. HOWE: The consolidation, of course, is a matter of simple addition.

Mr. WALSH: I know, but to consolidate the two accounts—for instance, I could not do it; probably the Minister of Transport could do it.

Hon. Mr. HOWE: I put on record the figure for the net debt of Canada this year, and we have in the statement—

Mr. WALSH: Last year we had the consolidated account from the national system and the public accounts of Canada.

Hon. Mr. HOWE: Here it is: This is the combined statement of the public accounts combined with those of the Canadian National Railways: C. N. R. investments, \$1,934,782,260; other assets, \$467,389,226; balance of net debt, \$2,407,624,500; giving a combined statement of indebtedness, of consolidated indebtedness, amounting to \$4,809,795,986. That is all of the debts of the Dominion of Canada. The liabilities are: C.N.R. capital stock held by the public, \$4,584,100; funded debt outstanding, \$4,469,678,920; other liabilities, \$335,532,906, giving the same total of \$4,809,795,926.

Mr. WALSH: Then further, just at the end of the account, the second last paragraph on page 3, I find:—

We are preparing for the Board of Directors of the railways a brief memorandum in connection with inactive properties, equipment retirement quotas and certain other internal matters principally of a character requiring further legal consideration and subject to final accounting disposition at a later date. A copy of this memorandum will be despatched to the Minister of Transport in due course.

What is the significance of that statement?

Mr. HUNGERFORD: We have some inactive branch lines and certain other inactive properties and the auditors referred to that; they are before the directors for consideration now.

Mr. WALSH: In what way are they before the directors? What is the proposal?

Mr. HUNGERFORD: Well, this recommendation for action on the part of the auditors has been submitted to them, and we are furnishing the directors with all the detailed information in respect to the various items.

Mr. WALSH: It is not with a view to writing off additional items, is it?

Mr. HUNGERFORD: I think not, at the present time; but I cannot anticipate the decision that will be made

Mr. WALSH: There is no particular significance then to that statement; there is nothing we can anticipate further this year?

Mr. HUNGERFORD: I would think not.

Mr. WALSH: One last question that I missed during the course of our travels through. I wanted to get some information in connection with the Canadian National terminal at Halifax. Have the Canadian National ever paid

the Cunard White Star line and do they continue to pay that company any money in order to get them to call their ships at Halifax east or westbound?

Mr. ARMSTRONG: The answer to that, Mr. Walsh, is that some years ago such a subsidy was paid; that has been discontinued for some time, and at the present time there is an agreement with the Canadian Pacific Railway whereby, in our joint interest, certain space is reserved on their boats for our traffic. It is a joint arrangement.

Hon. Mr. HOWE: The Cunard boats go in because they want to go in.

Mr. WALSH: They are no longer paid for calling at Halifax. That subsidy has been discontinued.

Mr. ARMSTRONG: Right.

Mr. WALSH: That is satisfactory. Then one last question. At the harbour of Saint John, N.B., there is an investment there I understand of \$23,000,000. Is that correct? The figure does not matter very much. But all that equipment for which this country has paid is connected up with C.P.R. facilities. Of course, I understand the C.P.R. regard Saint John as their home port. But since the fire those facilities at Saint John are no longer available directly to the Canadian National Railway.

Mr. HUNGERFORD: They have never been.

Mr. WALSH: Before the fire you had available the facilities that were there.

Hon. Mr. HOWE: The facilities are just the same.

Mr. WALSH: I am given to understand—I am sorry that the member for Saint John is not here.

Hon. Mr. HOWE: He is here.

Mr. WALSH: Probably he can answer that question better than I could. It was something that I discussed on the train with his predecessor when we were on our way home last year. He was discussing that very item, and I took a mental note of it.

Mr. McAVITY: I am not a member of this committee, but may I ask a question? I would like to ask why it is that with \$23,000,000 invested at the port of Saint John, as has been said, more use is not made of that port? The Canadian National Railways spent in 1903 \$10,000,000. I think they spent more than that. They voted \$10,000,000 to build the Canadian National Railways transcontinental branch through the centre of New Brunswick in order to save forty miles. Saint John is 168 miles nearer to the centre than other points. I do not see why more use is not made of the port of Saint John, and I would like to ask that question. Why is it that approximately 750,000 tons is taken approximately 168 miles farther each year? I have another question along a similar line, but a much smaller one. Freight destined for American points coming through Saint John might be turned over to the Canadian Pacific Railway to be carried to these American points at the same rate as the freight which is now carried, I think it is 84 miles, to Fredericton and turned over to the Canadian Pacific. The Canadian National Railways gets nothing for that extra carrying. Why should the extra train haul be carried with apparently no advantage to the Canadian National Railways? That is my question.

Mr. HUNGERFORD: In regard to the first question, we carry the goods to the port that the people want them taken to. We have no control of that situation at all.

Mr. HOWARD: They carry them to the port the shipper indicates.

Mr. McAVITY: Is that the case in every instance? Is that specified in every instance? Is all the freight that goes to Halifax marked especially to go there rather than to Saint John? I mean, some of it is possibly free to go

wherever the railroad wishes to carry it. I would like to ask if it is all especially marked to go to Halifax?

Mr. HUNGERFORD: We have had to respect the consignor's instructions. The shipper of the goods says where he wants them to go and we take them there.

Mr. HANSON: I take it for granted that the member for Saint John wants to send them not to Halifax but to Saint John. But they must take them where they are asked to take them.

The CHAIRMAN: Well, gentlemen, this completes our task, and the committee will meet again when the estimates for the year 1938-1939 are presented to the House and submitted to this committee for consideration. In the meantime I would like to have your permission to prepare a tentative report for submission to the committee beforehand.

Mr. HOWDEN: I move accordingly.

Mr. ANDERSON: There was a question asked by Mr. Walsh in regard to the taxes on the Vancouver hotel. In 1936 they were \$50,000; in 1937, \$54,000; in 1938 they will be approximately \$55,000; and for 1939, after the hotel is opened, they are not yet decided. That is, we cannot say definitely what they will be.

Mr. YOUNG: What is the basis of rental of this new hotel?

Mr. ARMSTRONG: It is set out in the memorandum.

Mr. YOUNG: It says how much it is. How is that arrived at?

Mr. ARMSTRONG: It is the net earnings from the hotel up to a maximum amount of \$280,000 per year.

Mr. YOUNG: How is the \$280,000 arrived at?

Mr. HUNGERFORD: Arbitrarily.

Mr. ARMSTRONG: That is part of the arrangement.

Mr. YOUNG: What is the cost of the hotel up to date?

Mr. HUNGERFORD: It was \$9,000,000 to the end of last year, plus whatever has been spent since.

Mr. YOUNG: What is the estimated cost when it is completed?

Mr. HUNGERFORD: About eleven and one-half million.

Mr. HOWARD: A small hotel.

Mr. YOUNG: This rental will only take care of a very small portion of the capital cost.

Mr. HUNGERFORD: Yes. But under this arrangement we will have more net revenue than we otherwise would have to apply on the capital sum.

Mr. YOUNG: I notice that part of whatever accrues to the hotel in the shape of profits after this has been taken care of will go to the Canadian Pacific Railway.

Mr. HUNGERFORD: It will be a dividend on common stock.

Mr. YOUNG: Yes. I understood this morning or yesterday that they have not put anything into this hotel.

Mr. HUNGERFORD: No. That is right.

Mr. YOUNG: What interest will we have in the present Vancouver Hotel?

Mr. HUNGERFORD: Under this arrangement we will be entitled to half the salvage on the hotel.

Mr. YOUNG: If it is operated now, and if after the agreement goes into effect there are deficits in its operation, for any purpose, who pays any deficits?

Mr. HUNGERFORD: We share the deficits equally and get the ultimate salvage equally.

Mr. YOUNG: Under this agreement, how long would it be possible to carry on with deficits accruing? I notice there is some provision here for selling.

Mr. HUNGERFORD: There is a provision that if the hotel is not disposed of—if the property is not sold—it can be torn down within three years.

Mr. YOUNG: Torn down in how long?

Mr. HUNGERFORD: It will be torn down within three years if not leased or sold; if at the end of seven years the property has not been disposed of, then a valuation will be established by arbitration or otherwise. The C.P.R. will pay us interest on one-half of the amount.

Mr. YOUNG: What will the name of the new hotel be?

Mr. HUNGERFORD: The Hotel Vancouver.

Mr. YOUNG: The same name?

Mr. HUNGERFORD: The Hotel Vancouver, yes.

Mr. YOUNG: Has it been considered advisable to change the name of the hotel?

Mr. HUNGERFORD: No. There were a great many suggestions in regard to it, but the conclusion was that the present name had a certain value.

Mr. YOUNG: Will it be known as the international hotel or what?

Mr. HUNGERFORD: It will be known as the Hotel Vancouver. I think everybody will clearly understand that it is a jointly operated hotel but the ownership will remain with the Canadian National Railways.

Mr. YOUNG: When the name is not changed, it will be pretty difficult to dissociate that hotel from one which has been run by another company for a long time.

Mr. HUNGERFORD: I assure you that everybody in Vancouver and thereabouts understands this, anyway.

Hon. Mr. HOWE: The guests will notice the difference as they go into the lobby.

Mr. HOWARD: You bet they will, but they will not see it on the bill.

Mr. HOWDEN: Mr. Chairman, I made a motion a while ago that you have authority to prepare a draft report. You asked for that motion. I did not hear you pass it.

The CHAIRMAN: Yes. I hope you will grant the permission to do that.

Mr. HOWDEN: Yes.

The CHAIRMAN: Of course, it is only a tentative report which will be submitted to the members of the committee for amendment galore. This committee stands adjourned to the call of the chair.

The committee adjourned at 5.30 p.m. to meet again at the call of the chair.

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Canada Railways and Shipping
Standing Committee 1938

SESSION 1938

HOUSE OF COMMONS

CA 1815
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(STANDING COMMITTEE)



ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE
(Including Fourth and Final Report)

No. 3

WEDNESDAY, MAY 25, 1938

WITNESSES:

Mr. E. J. Mallory, Executive Assistant to the President, Canadian National Railways; Mr. T H. Cooper, Comptroller, and Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, Canadian National Railways, Montreal.

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1938

ORDERS OF REFERENCE

FRIDAY, May 20, 1938.

Ordered,—That the following items of the Estimates for 1938-39, presented to the House this day, i.e.

Vote 633, Canadian National Railway \$42,000,000 00

Vote 634, Prince Edward Island Car Ferry
and Terminals 327,000 00

Vote 635, Trans-Canada Air Lines 830,000 00

be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

THURSDAY, May 26, 1938.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its

THIRD REPORT

Your Committee has considered the following Items of the Supplementary Estimates for the fiscal year ending March 31, 1939, referred to your Committee on May 20, and approves of same, viz:—

Item No. 633, Canadian National Railway Company, \$42,000,000.

Item No. 634, Prince Edward Island Car Ferry and Terminals, \$327,000.

Item No. 635, Trans-Canada Air Lines, \$830,000.

All of which is respectfully submitted.

EUGENE FISET,
Chairman.

FINAL REPORT

THURSDAY, May 26, 1938

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its

FOURTH AND FINAL REPORT

Your Committee has considered the financial statements of the Canadian National Railways for the year ended December 31, 1937, including the Annual Report of the Canadian National Railway System, the Annual Report of the Canadian National (West Indies) Steamships, Limited, the First Annual Report of the Canadian National Railways Securities Trust and the First Annual Report of the Trans-Canada Air Lines.

Canadian National Railway System

A substantial increase of \$11,786,119.23 is shown in the operating revenues, this being reflected in both freight and passenger traffic as well as in telegraph, express and mail service. Although the operating expenses increased by \$9,311,168.02, it is to be noted that two thirds of this amount is accounted for in the two following items, viz: increase in prices of materials, \$3,000,000, and increased rates of pay to employees, \$2,800,000.

Whilst the vote of \$35,000,000 provided for cash deficit has been over-expended by approximately \$7,000,000, practically all of this over-expenditure, namely \$6,134,130 is reflected in the decrease of gross revenue from the transportation of grain grown in Western Canada. The situation in this regard is briefly summarized in the following paragraph of the Board of Directors' Report:—

The effect of increased productivity in Canada upon the future revenues of the National System does not require to be stressed. An increase in productivity in any form of industry, including agriculture, at once reflects itself in the earnings of the system; and decreases in the volume of production affect seriously the gross revenues of the railway. The gross revenues of the Canadian National from the transportation of grain grown in Western Canada in the years 1925-1934 inclusive averaged \$22,000,000 per annum, the tons of grain carried averaging 5,000,000 during that ten year period. . . It will be noted that the gross revenues of the railway from the movement of Western Canada grain in 1937 were only 44 per cent of those obtained on the average during the ten year period ending in 1934.

One of the most acute problems in relation to the finances of the Canadian National Railways is undoubtedly the one reflected in the enormous amount of interest required to meet its funded debt. Of grave concern to your Committee is the comparatively high rate of interest charged on a portion of the securities involved in this indebtedness particularly on perpetual bonds and on others which are only callable in the very distant future.

Your Committee cannot urge too strongly that the whole funded debt structure of the Canadian National be thoroughly examined and that a determined effort be made to refund at a lower rate the issues bearing interest at a cost out of line with present conditions.

The situation created through the lack of terminal facilities in the city of Montreal was considered by your Committee. Inasmuch as the Statutes already contain an enabling Act in this regard, the consensus of opinion is to the effect that the project should receive further consideration.

Canadian National (West Indies) Steamships

The operating revenues of the Company indicate further improvement during the year 1937. Both freight and passenger traffic show increased revenue. It is to be noted that after payment of bond interest, but before depreciation and interest on government advances, there is available \$188,537.75 to be paid in reimbursement in part of prior deficits and interests as compared to the amount of \$87,398.55 available for this purpose in 1936.

Canadian National Railways Securities Trust

The first Annual Report submitted under the provisions of the Canadian National Railways Capital Revision Act, 1937, was duly considered by your Committee, the Chairman of the Trustees, Dr. W. C. Clark, Deputy Minister of Finance, being examined thereon. The report indicates that, as required under the Act, the Minister of Finance transferred to the Securities Trust the Canadian National Railways indebtedness to His Majesty together with the collateral securities held by the Minister in respect thereof, and that in exchange therefor the capital stock of the Securities Trust consisting of five million shares of no par value was issued to the Minister to be held on behalf of His Majesty.

Due to capital losses from certain line abandonments made by the Railway during the year 1937 in respect of which His Majesty has not made cash reimbursement to the Railway, the initial stated value of the capital stock was reduced by \$711,732.21, the authority provided in the Act for such action having been confirmed by an opinion of the Department of Justice.

It is also noted that with the approval of the Governor in Council, interest accruing after December 31, 1936, on the principal of the loans included in the indebtedness to His Majesty was waived by the Securities Trust until further ordered by the Trustees.

In accordance with section 24 of the Capital Revision Act, the 1937-38 Public Accounts will, for the first time, set out in a separate appendix, an historical record of the accumulated railway cost to the Dominion since Confederation, regardless of whether the Parliamentary Votes were in the form of loans, grants, subsidies, guarantees or otherwise.

Trans-Canada Air Lines

Most of the activities of the Trans-Canada Air Lines during the past year have been preliminary to operation. They indicate, however, that the objective of a first class air transport service across Canada will be achieved during the current year.

Assurance has been given your Committee that the service now operating in Western Canada will, in the near future, be extended to Montreal and from there to the Maritime Provinces, where a satisfactory service linking the principal cities in the maritimes is contemplated, the same as is being done for the cities in the Prairie Provinces.

Estimates

Items Nos. 427, 428, 437 and 438 of the Main Estimates, referred to your Committee on March 29, were considered, approved and reported to the House on April 28, and Items Nos. 633, 634, and 635 of the Supplementary Estimates referred on May 20, after being considered, were approved of and reported in the Committee's Third Report presented this day.

A copy of the Minutes of proceedings and evidence is annexed hereto.
All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 25, 1938.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 4.00 p.m, the Chairman, Sir Eugène Fiset, presiding.

Members present: Messrs. Barber, Elliott (*Kindersley*), Emmerson, Fiset (Sir Eugène), Fraser, Hanson, Heaps, Howden, Howe, Kinley, Maybank, Stewart.

In attendance, Mr. V. I. Smart, Deputy Minister of Transport, Officials of the Canadian National Railways, including Mr. E. P. Mallory, Executive Assistant to the President, Mr. T. H. Cooper, Comptroller, and Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, and Mr. A. V. Franklin, Railway Auditor, Department of Finance.

The Committee considered items 633, 634 and 635 of the Supplementary Estimates referred to the Committee on May 20.

The said Estimates were approved and the Chairman was authorized to report them to the House.

The Committee then proceeded *in camera* to the consideration of a draft report submitted by the Chairman, constituting the Fourth and Final Report of the Committee.

After consideration, the draft report was amended and, on motion of Mr. Heaps,

Resolved,—That the report, as amended, be adopted and that the Chairman be authorized to present same to the House.

The Committee adjourned *sine die*.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

May 25, 1938.

The Standing Committee on Railways and Shipping met at 4 o'clock. The Chairman, Sir Eugène Fiset, presided.

The CHAIRMAN: Now, gentlemen, we are here to consider the supplementary estimates of the Canadian National Railways which will be found at page 21 of the general supplementary estimates. I direct your attention to the first item, No. 633.

Amount not exceeding \$42,000,000 to be paid from time to time, under such conditions as the Minister of Finance may prescribe, to the Canadian National Railway Company (hereinafter called "the National Company") and to be applied by the National Company in payment of the deficit arising in the calendar year 1938, including such supplementary contribution to the Intercolonial and Prince Edward Island Railway Employees' Provident Fund as may be necessary to provide for payment in full of monthly allowances under the provisions of the Intercolonial and Prince Edward Island Railway Employees' Provident Fund Act, notwithstanding the limitation contained in section four of the said Act, and including such supplementary contribution to the Grand Trunk Railway of Canada Superannuation and Provident Fund as may be necessary to enable payment to be made of monthly allowances under the rules and regulations of the Fund, notwithstanding the limitation contained in section thirteen of chapter sixty-five of the Statutes of Canada, 1874, but not including amounts charged to proprietor's equity of the National Railway system as defined in chapter twenty-two of the Statutes of Canada, 1937—

Canadian National Railways, exclusive of Eastern	
Lines	\$ 39,900,000 00
Eastern Lines	2,100,000 00
<hr/>	
\$ 42,000,000 00	

Mr. ELLIOTT: Is there any place where we have a break-down showing the different amounts of the Provident fund?

The CHAIRMAN: No, there is no detail.

Mr. HANSON: The amount is to be paid from time to time.

Mr. HEAPS: This is the estimated deficit for the year 1938.

The CHAIRMAN: Do you want me to take those details one by one?

Mr. HEAPS: May I ask a question with regard to the item concerning eastern lines, \$2,100,000? Could I have what is actually implied by that item?

Mr. MALLORY: The difference between the earnings and expenses; the break-down between the system as a whole and the eastern lines. The eastern lines are that part of the territory east of Diamond Junction and Levis, separated under the Maritimes Freight Rates Act.

Mr. HEAPS: This is the estimated deficit only?

Mr. MALLORY: No, it is the total deficit after all income charges—cash deficit.

The CHAIRMAN: We might as well take the report as it stands. Take the first page, Mr. Heaps.

Hon. Mr. STEWART: With respect to these items, as I recall it, they are in practically the same wording as they were last year?

The CHAIRMAN: Exactly.

Hon. Mr. STEWART: If it is understood, as I believe it is, that our passing the item at present before us does not preclude further discussion of it in the House of Commons—

The CHAIRMAN: Oh, no.

Hon. Mr. STEWART: —and that any general statement as to the situation might be made there, I do not see any object in going too much into detail here.

Mr. HEAPS: We do not, as a rule, discuss these matters in any great detail once they have been passed by the committee here, and I was anxious to find out the position of the eastern section of the railway as compared with the rest of the country.

The CHAIRMAN: Now, will you take page 2 of the report that you have there, Mr. Heaps; you have the full details of that item of \$2,100,000. This is the budget for the year 1938, and there is a heading "Eastern Lines, System Excluding Eastern Lines, System All-inclusive," and you have the total there.

Mr. HEAPS: I do not see in that item any interest charges on the eastern lines. What I wanted to find out was whether that \$2,100,000 estimated here allowed for the interest charges on the eastern sections of the lines?

Mr. COOPER: Yes, it does.

Mr. MALLORY: \$333,000, interest due public on long term debt, and other fixed charges, \$1,197,000.

Mr. HEAPS: In that case, the eastern lines show better results than probably the rest of the country at the present time.

Hon. Mr. HOWE: Better comparative results. As against the other results you have the fixed charges of the railway, and in this the only fixed charges you have are chiefly the bonds on the Halifax and South Western railways. The Intercolonial was paid for direct by the government as it was built, so there are no fixed charges assessed against that line. The fixed charges there are hardly in proportion to the rest of the line. We estimate it will fail to meet operating expenses by \$700,000. It has to meet taxes of \$275,000 and interest of \$832,000. I think that is pretty well the story as shown there.

Hon. Mr. STEWART: Mr. Chairman, any contribution under the Maritime Freight Rates Act—is that taken into consideration?

Hon. Mr. HOWE: Yes, that is added in.

Mr. HEAPS: Added into this?

Hon. Mr. HOWE: Yes, the second item, schedule 2.

Mr. HEAPS: Is that added into the income? If so, should it go that way?

Mr. COOPER: Yes, sir.

Mr. HEAPS: If this amount were not in, which is really a direct subsidy, it would be a different story.

The CHAIRMAN: It is income for the railway.

Mr. HEAPS: It is expenditure from the national exchequer.

Hon. Mr. HOWE: Of course, the railway paid its freight cost, twenty per cent, with the understanding that that would be paid back. It was a bargain. It transferred that twenty per cent of the freight from the shipper to the federal exchequer.

Mr. HEAPS: I always opposed this twenty per cent because I do not like making favourites of any section of the country. If we did that all over the country we would be in a nice position.

Hon. Mr. HOWE: You have not heard much about maritime rights.

Mr. HEAPS: I was in the House when it was done, and I do not apologize for my vote.

The CHAIRMAN: Are there any other objections?

Mr. HEAPS: On this item?

The CHAIRMAN: Yes. That is the main item, \$40,000,000.

Mr. EMMERSON: Is there any break-down showing the amount of that Provident fund—the amount the government has to pay?

Mr. COOPER: It is shown on pages 1 and 2: \$1,421,000. It is in the note on the middle of the page.

The CHAIRMAN: Shall the item carry?

Carried.

Item 634: "To hereby authorize and provide for the payment from time to time during the fiscal year 1938-39 to the Canadian National Railway Company of the difference between the operating expenses and the revenue from the operation of the Prince Edward Island Car Ferry and Terminals (certified by the auditors of the Canadian National Railway Company to the Minister of Transport as and when required by the said Minister) in the calendar year 1938, \$327,000.00."

Mr. HEAPS: I might as well get a little information. I have been abused a great deal because I have asked for this information in the past. I might as well get a little more abuse now—not from the minister, but from other members of the House thinking I have no right to make these inquiries in regard to these questions. I would like to know what capital expenditure is involved in the ferry, and what the actual gross loss is in the operation of the ferry?

Mr. COOPER: The investment at the end of 1937 in the two-car ferries was \$2,893,000 and in the terminals \$4,987,000. That is the capital investment. The operating loss in 1937 is \$333,000.

Mr. HEAPS: And what is the cost of the capital investment in the ferries?

Mr. COOPER: \$2,893,000.

Mr. HEAPS: So that in addition to the \$327,000 there is also an additional loss of the amount you just mentioned?

Mr. COOPER: Of course, as far as the railway is concerned this capital is provided by the government as a part of the Canadian Government Railways and we ourselves do not have any interest charge.

Mr. HEAPS: Somebody has to pay it. I am not saying that it is up to the Canadian National system to pay it, but I would like to get a real picture of the actual loss in connection with these services.

Mr. SMART: There is no loss; it is capital invested—paid out of departmental estimates.

Mr. HEAPS: Yes, but the operations of the boats show a deficit of \$327,000, an estimated deficit; and on top of that has got to be added the interest charges on the boats.

Hon. Mr. HOWE: You can fix your own interest rate.

Mr. HEAPS: Say 3½ per cent or 4 per cent; and it comes to a loss of at least a million dollars a year.

Mr. COOPER: Four per cent would be \$315,000.

Mr. HEAPS: \$315,000 added on to this would make it about \$700,000. I would like to know the amount of revenue that comes in for the amount that was spent?

Hon. Mr. HOWE: Can you give him the revenue, Mr. Cooper?

Mr. ARMSTRONG: The revenues for 1937 were \$104,675; expenses \$431,679; deficit \$327,003.

Mr. BARBER: Does that include interest on the terminals?

Mr. HEAPS: I want to know the gross revenue.

Mr. COOPER: \$104,675. We should explain that that is merely a mileage pro rate of the traffic which moves over the land lines and the water ferries; it is not the revenue which you would assign to that service if it were completely separately operated and could negotiate with the railways for its own independent division of the through earnings on the traffic.

Mr. MALLORY: Mr. Cooper means that the rates charged for the service performed by that service are not on the basis they would be if it was an independent ferry; it is part of the through rail movement.

Mr. HEAPS: Part of the system. But it seems that we have spent an enormous amount of money for apparently a very small amount of traffic.

Hon. Mr. HOWE: That is part of the confederation bargain, that we should maintain continuous service.

Mr. HEAPS: I am wondering whether the service they have given is not, perhaps, a little too good for the amount of traffic.

The CHAIRMAN: Someone speaking from the standpoint of the Island said it was too bad.

Mr. HEAPS: He has a home there, or he goes there for his holidays.

Hon. Mr. HOWE: They had the best increase last year of any part of the system, and it is holding up wonderfully well this year—far better than any other class on the system—and we sincerely hope that within a year or two we will be able to get it out of the red.

The CHAIRMAN: You remember the case of Rimouski. Last year there was a revenue of \$580,000 as compared with \$90,000 five years ago.

Mr. HEAPS: I know; but you can perform miracles there. However, Mr. Chairman, I want to find out the actual standing of these particular ventures which we are entering into. It is not because I have anything in particular against any particular part of the country. I think, perhaps, we may go a little too extravagantly into these ventures, and they might give us just as good service if we did not put as much in.

Hon. Mr. HOWE: You have never found me making requests for heavy expenditures in the prairies and in other parts of the country at any time unless I am satisfied there is going to be an adequate return.

The CHAIRMAN: Shall the item carry?

(Carried).

Now, we come to item 635: Trans-Canada Air Lines:—

To hereby authorize and provide for payment from time to time during the fiscal year 1938-39 to Trans-Canada Air Lines, to be applied by the said Trans-Canada Air Lines in payment of the deficit (certified by the Auditor of the said Trans-Canada Air Lines to the Minister of Transport as and when required by the said Minister) resulting from the operations of the said Trans-Canada Air Lines during the calendar year 1938, \$830,000.

Mr. HEAPS: What are the prospects there?

Hon. Mr. HOWE: The situation this year is that the Trans-Canada run practically all the operating expenses while they are developing the system to the point of a revenue producing basis. For example, we are operating over a good deal of the line to-day, training pilots and establishing the service when we are not obtaining revenue therefrom. We have practically as much staff as we require for full operation, but this is just an interval which is inevitable in starting up a new service like this when we must collect our staff and train it.

Mr. BARBER: It was reported that the service would commence from Winnipeg west on the 15th of the month? Has that service commenced yet?

Hon. Mr. HOWE: Oh, yes, we have been carrying mail since early in March. We started to carry express on the 15th.

Mr. BARBER: That is a regular service now, is it? There was no regular service before, was there?

Hon. Mr. HOWE: There was a regular service every day, yes; but we have not started to carry passengers yet because facilities are not up to a point where we think we are justified in carrying passengers, but we will start by the 1st of July to carry passengers.

Mr. HEAPS: Do you think this will ultimately prove a satisfactory venture on the part of the government?

Hon. Mr. HOWE: I think it has progressed wonderfully well to date. We are well pleased with the result of carrying mail. We have operated for several months in bad weather without any injury to equipment, or any other kind of injury. We are proceeding on a sound basis, and I think those familiar with air transport feel we are developing a fine service.

The CHAIRMAN: Shall the item carry?

(Carried).

Mr. HANSON: I am interested in having a little information regarding page 3 on the budget for 1938, although we have already passed it. I want some information on hotels: \$1,800,000. I would like to know which hotels that covers, and what the deficit is to each hotel?

The CHAIRMAN: We had that on the main estimates. This information was furnished.

Mr. HANSON: It has not been furnished so far, has it?

The CHAIRMAN: Yes.

Mr. ARMSTRONG: \$1,800,000 in capital expenditure. That includes an estimated \$1,750,000 for the Vancouver hotel and \$50,000 for miscellaneous additions and betterments to other hotels.

Mr. HANSON: It is practically all the Vancouver hotel?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: Is that all, gentlemen? Very well, we will close our sitting.

The Committee adjourned to resume *in camera*.

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SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

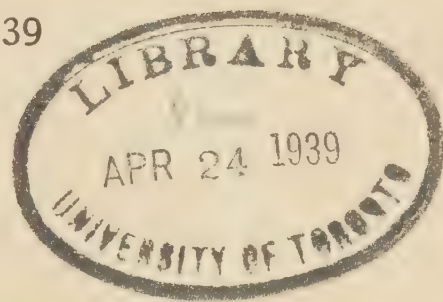
Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

WEDNESDAY, APRIL 5, 1939

TUESDAY, APRIL 18, 1939



WITNESSES:

Mr. S. J. Hungerford, President.

Mr. S. W. Fairweather, Chief of Research and Development.

Mr. T. H. Cooper, Comptroller.

Mr. W. M. Armstrong, Assistant Director, Bureau of Economics.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1939

MEMBERS OF THE COMMITTEE

Sir EUGENE Fiset, *Chairman*

Messieurs:

Barber,	Howe,
Bothwell	Kinley,
Cameron,	Lockhart,
Deachman,	McKinnon (<i>Kenora-Rainy River</i>),
Elliott (<i>Kindersley</i>),	Maybank,
Emmerson,	Parent (<i>Quebec West and South</i>),
Ferland,	Ross (<i>Middlesex East</i>),
Hanson,	Stewart,
Heaps,	Vien,
Howard,	Walsh,
Howden,	Young.

JOHN T. DUN,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS

MONDAY, April 3, 1939.

Resolved,—That standing order 63 of the House of Commons, relating to the appointment of standing committees of the House, be amended by adding to the standing committees of the House for the present session a standing committee on railways and shipping owned, operated and controlled by the Government, to which will be referred accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines for the present session, for consideration and report to the House; provided however that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said committee consist of: Messrs. Barber, Bothwell, Deachman, Elliott (Kindersley), Emmerson, Ferland, Fiset (Sir Eugène), Fraser, Hanson, Heaps, Howard, Howden, Howe, Kinley, Lockhart, McKinnon (Kenora-Rainy River), Maybank, Parent (Quebec West and South), Ross (Middlesex East), Stewart, Vien, Walsh, Young.

Attest.

ARTHUR BEAUCHESNE,

Clerk of the House.

FRIDAY, January 27, 1939.

Ordered,—That the Standing Committee on Railways and Shipping owned, operated and controlled by the Government, be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,

Clerk of the House.

FRIDAY, March 31, 1939.

Ordered,—That Vote No. 588 of the Special Supplementary Estimates for the year ending March 31, 1940, presented to the House this day, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,

Clerk of the House.

TUESDAY, April 4, 1939.

Ordered,—That the annual budget of the Canadian National Railways and Canadian National Steamships, tabled this day, and the annual reports laid on the Table of the House on March 30, 1939, as follows:—

Annual Report of the Canadian National Railways System, for the year ended December 31, 1938.

Annual Report of the Canadian National (West Indies) Steamships Limited, for the year ended December 31, 1938.

Annual Report of the Directors of the Trans-Canada Air Lines, for the year ended December 31, 1938.

Annual Report of the Canadian National Railways Securities Trust, for the year ended December 31, 1938.

Report of the firm of George A. Touche and Company, Auditors of the Accounts of the Canadian National Railways System for the year ended December 31, 1938,

be referred to the said committee, together with the following votes:—

442—Maritime Freight Rates Act, Canadian National Railways Eastern Lines—\$2,000,000;

443—Maritime Freight Rates Act, railways other than Canadian National Railways—\$800,000;

454—Canadian National (West Indies) Steamships Limited, capital advance—\$20,000;

from Main Estimates for the fiscal year ending March 31, 1940, as tabled on January 27, 1939; also

588—Canadian National Railway Company—\$43,750,000;

589—Prince Edward Island Car Ferry and Terminals—\$327,000;

590—Trans-Canada Air Lines—\$488,941;

from the Special Supplementary Estimates for the fiscal year ending March 31, 1940, tabled March 31, 1939.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, April 5, 1939.

Ordered,—That the name of Mr. Cameron be substituted for that of Mr. Fraser on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, April 5, 1939.

Ordered,—That the said Committee be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee be empowered to sit while the House is sitting.

Ordered,—That the quorum of the said Committee be reduced from 12 members to 8 members.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

WEDNESDAY, April 5, 1939.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as a

FIRST REPORT

Your Committee recommends,—

1. That it be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

2. That it be empowered to sit while the House is sitting.

3. That the quorum of the committee be reduced from 12 members to 8 members.

All of which is respectfully submitted.

EUGÈNE FISET,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 5, 1939.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met for organization at 11 a.m.

Members present: Messrs. Barber, Bothwell, Elliott (*Kindersley*), Emmer-son, Sir Eugène Fiset, Hanson, Heaps, Howard, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Ross (*Middlesex East*), Stewart, Vien.

On motion of Mr. Ross (*Middlesex East*),—

Resolved,—That Sir Eugène Fiset be Chairman.
Sir Eugène Fiset took the Chair.

On motion of Mr. Ross (*Middlesex East*),—

Resolved,—That the Committee request permission to sit while the House is sitting.

On motion of Mr. Bothwell,—

Resolved,—That the Committee request permission to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order No. 64 be suspended in relation thereto.

On motion of Mr. Howard,—

Resolved,—that the Committee recommend that the quorum be reduced from 12 members to 8 members.

Mr. Stewart, for Mr. Walsh, submitted three requests for information, viz:—

1. On page 55 of the minutes of Standing Committee on Railways and Shipping, Wednesday, April 27, 1938, we have a statement in answer to a previous by myself, covering detail of hotel operation. I would like to have filed and entered in minutes of this year a similar statement covering calendar year 1938.
2. Condensed Income Statement, including Profit and Loss, of the Canadian National Steamships (Pacific Coast) for the years 1937 and 1938, similar to statement for the year 1936, filed with the Standing Committee on Railways and Shipping, March 23, 1937, and appearing on page 225 of the printed proceedings for that year.
3. A statement showing for each year 1932 to 1938 inclusive, Freight Service and Passenger Service, (a) Revenues, (b) Expenses, (c) Net Operation, (d) Ration Revenues to Expenses. Also Capital Investment in freight train cars and passenger train cars.

Ordered,—That these three requests be forwarded to Mr. S. J. Hungerford, President, for reply.

The Committee adjourned until Tuesday April 18, at 11 a.m.

JOHN T. DUN,
Clerk of the Committee.

TUESDAY, April 18, 1939.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugène Fiset, the Chairman, presided.

Members present: Messrs. Barber, Bothwell, Cameron, Deachman, Elliott (*Kindersley*), Emmerson, Ferland, Fiset (Sir Eugène), Hanson, Howden, Howe, Kinley, Lockhart, McKinnon (*Kenora-Rainy River*), Maybank, Ross (*Middlesex East*), Stewart, Vien, Walsh, Young—20.

In attendance: Mr. S. J. Hungerford, President; Mr. S. W. Fairweather, Chief of Research and Development; Mr. T. H. Cooper, Comptroller; Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, Canadian National Railways; Col. V. I. Smart, Deputy Minister of Transport.

The Annual Report of the Canadian National Railway System for the year ending December 31, 1938, was read by Mr. W. M. Armstrong, and the Committee commenced consideration thereof.

Supplementary to the said Annual Report, Mr. S. W. Fairweather read a report respecting the new Montreal Terminal, on which he was questioned.

Mr. S. J. Hungerford and Mr. T. H. Cooper replied to a few questions.

Replies were filed by Mr. Fairweather to questions asked by Mr. Walsh at the first meeting of the Committee.

The Committee adjourned at 1 p.m. until 4 p.m. this day.

The Committee resumed at 4 p.m. Sir Eugène Fiset, the Chairman, presided.

Members present: Messrs. Barber, Cameron, Deachman, Elliott (*Kindersley*), Emmerson, Ferland, Fiset (Sir Eugène), Hanson, Howden, Howe, Kinley, Lockhart, McKinnon (*Kenora-Rainy River*), Maybank, Stewart, Vien, Walsh, Young—18.

In attendance: Officials who were at this morning's meeting.

The Committee resumed consideration of the 1938 Annual Report of the Canadian National Railway System.

Explanations were given and discussions took place respecting accounting practice relative to sale of steamships, railway maintenance costs, abandonment of branch lines, Vancouver Hotel, Transcona shops, pension funds, pooling of passenger trains, cartage service, Montreal terminal.

At 6 p.m. the Committee adjourned until to-morrow at 4 p.m.

JOHN DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

ROOM 277,

April 18, 1939.

The Standing Committee on Railways and Shipping met at 11 o'clock. The chairman, Sir Eugène Fiset, presided.

The CHAIRMAN: Gentlemen, as you know we reduced our quorum to eight at our last meeting, and as we have a full quorum now I should like to ascertain if it is the desire of the members of the committee to have the order of reference read. It is a long document and we all know what it is. I do not think it will be necessary to read it.

Hon. MEMBERS: No.

The CHAIRMAN: We shall then start with the annual report of the Canadian National Railways. The report of the president will be read by Mr. Armstrong.

Mr. ARMSTRONG: (Reads):

CANADIAN NATIONAL RAILWAYS

MONTREAL, March 20, 1939.

The Honourable C. D. HOWE, M.P.,
Minister of Transport,
Ottawa.

SIR,—In conformity with sections 14 and 15 of *The Canadian National-Canadian Pacific Act, 1936*, the Board of Directors submits the following report of the operations of the Canadian National Railways for the calendar year 1938.

RESULT OF OPERATIONS

	1938	1937	Increase or Decrease
Operating revenues..	\$182,241,722 93	\$198,396,608 61	\$16,154,885 68
Operating expenses..	176,175,311 78	180,788,858 09	4,613,546 31
Net operating revenue..	\$ 6,066,411 15	\$ 17,607,750 52	\$11,541,339 37
Operating ratio..	96.67%	91.12%	
Net of other income and profit and loss requirements	\$ 9,615,459 68	\$ 9,320,522 24	294,937 44
Net available for interest	\$ 3,549,048 53	\$ 8,287,228 28	\$11,836,276 81
Interest on funded debt held by public	49,839,022 58	48,888,545 56	950,477 02
Interest on government loans	926,124 86	1,744,550 71	818,425 85
Cash deficit	\$ 54,314,195 97	\$ 42,345,867 99	\$11,968,327 98

Operating Revenues

The decline in general business activity in the latter part of 1937, as referred to in the report for that year, continued throughout the greater part of 1938 with its inevitable reaction on railway revenues. The effect was most marked on the lines of the Company in the United States, the revenues of which declined 23% as compared with a decline of 5% on the lines in Canada, the latter in turn being adversely affected by a decrease in international traffic.

Gross operating revenues totalled \$182,241,723, a decrease of \$16,154,886, or 8.14%, from the preceding year. During the first nine months of the year the reduction was \$15,737,865, and in the last quarter, \$417,021, indicating the traffic trend during the year. The increased grain movement contributed to check the decline in revenue in the last quarter.

Freight revenues decreased by \$14,026,556, or 9.1%. A statement of revenue tonnage appears on pages 24 and 25. System grain tonnage increased by 1,446,850 tons, or 40.5%. There were no major freight rate changes during the year in Canada. In the United States the Interstate Commerce Commission authorized a general increase in freight rates of approximately 7%, effective March 28, 1938. The Board of Transport Commissioners for Canada authorized the application of these increases in connection with international traffic.

Passenger revenues decreased by \$847,918, or 4.5%. In Canada coach excursion rates were increased by 25% during the year and in the United States coach class mileage rates were increased from 2 cents to 2.5 cents per mile in the eastern territory, this latter change also affecting certain Canadian rates.

Express revenue decreased \$535,280, or 5.7%; Commercial Telegraph revenue decreased \$411,981, or 8.4%; Switching revenue decreased \$432,562, or 17.6%.

Operating Expenses

The operating expenses for the year totalled \$176,175,312. This is a decrease of \$4,613,546 or 2.55% as compared with 1937. A summary of operating expenses will be found on page 14 and details on pages 15 to 17.

The decrease in expenses was effected notwithstanding increases in wage costs due to the restoration of basic wages in Canada and to wage increases in the United States, reference to which was made in the 1937 report. These wage increases affected the 1938 expenses as compared with 1937 by \$6,082,000. Another factor affecting the expenses was an increase in the price of materials, which amounted to \$900,000. Apart from these features, there was a reduction in operating expenses of \$11,600,000 as compared with the previous year. This was effected by a policy of holding operating expenses to a minimum, consistent with efficiency of operation and the provision of needed services.

During the first quarter of the year motive power and car shops were operated on a basis which would ensure an adequate supply of serviceable equipment to meet anticipated heavier transportation needs, particularly in connection with Western grain traffic. Subsequently, and concurrently with the decline which developed in Eastern and International traffic, maintenance of equipment forces throughout the system were reduced approximately 25%.

While maintenance expenses have been kept to a minimum, the property and equipment is in good condition having regard to the volume of business to be handled.

Net of Other Income and Profit and Loss Requirements

The accounts under this group increased \$294,937 over 1937.

Taxes amounted to \$6,946,873 compared with \$6,697,242 in 1937. These figures are exclusive of sales tax added to the cost of materials, which amounted to \$3,150,000 as compared with \$4,200,000 in 1937.

The revenues from hotel operations increased \$98,875 over 1937, and after meeting operating expenses and taxes the net operating income was \$226,014, an increase of \$25,927 over 1937.

Net equipment rentals payable by the company decreased \$575,000.

Loss on sale of the ss. *Prince Henry* applicable to the expired service life of the vessel charged to income in 1938 amounted to \$668,195.

The cost of exchange increased \$493,000 over 1937.

Interest Charges

The total requirements for interest on funded debt held by the public in 1938 were \$49,839,023, as compared with \$48,888,546 for 1937, an increase of \$950,477.

Interest payments to the Government on temporary loans for capital purposes amounted to \$926,125, as compared with \$1,744,551 for 1937, a decrease of \$818,426.

The changes reflect the financing during the year which had for its object the refunding by public issues of Government temporary loans for capital purposes.

Cash Deficit

The net operating revenue for the year 1938 was \$6,066,411, a decrease of \$11,541,339 from the preceding year. After payment of all other charges, excepting charges to Proprietor's Equity under the provisions of The Canadian National Railways Capital Revision Act, 1937, as outlined on page 12, there was a deficit of \$54,314,196 as compared with \$42,345,868 in 1937.

CAPITAL EXPENDITURE ACCOUNT

The net expenditures on property investment account for the year 1938 amounted to \$10,798,792 made up as follows:

Rolling stock purchased or built	\$11,233,216
Betterments to freight and passenger equipment.. . . .	837,062
Air-conditioning passenger cars.. . . .	761,659
Senneterre-Rouyn branch line	2,064,924
Vancouver hotel	963,149
General additions and betterments, less retirements	2,734,764
Equipment retirements—Credit	7,795,982
	<hr/>
	\$10,798,792

The Senneterre-Rouyn branch line authorized by chapter 26, 1936 was formally opened for operation on December 3, 1938. It is anticipated that the opening of direct railway transportation to this rich mineralized section will be an important factor in further development of the area. As shown above \$2,064,924 was spent during the year, the total cost to December 31, 1938, being \$5,315,134.

The following rolling stock was purchased or built during the year: 8 locomotives; 2,310 box cars; 25 coal cars; 61 baggage cars; 6 dining cars; 5 mail and express cars; 1 buffet sleeping car; 26 snow ploughs; and 11 miscellaneous work units.

The following units of rolling stock were retired during the year: 50 locomotives; 5,383 freight train cars; 8 passenger train cars; and 300 work units. The cost of this equipment, less salvage (and less depreciation on units owned by United States Lines) was charged to operating expenses.

During the year 1938, 148 additional air-conditioned units were placed in service, the total number of such units at December 31, 1938, being 401. The program for the year 1939 provides for an additional 92 units. Air-conditioned cars operated by the Pullman Company over Canadian National lines number 52.

FINANCE

Retirement of Obligations

Expenditures for the retirement of capital obligations, including sinking fund and equipment principal payments, amounted to \$9,035,275, which was financed from temporary loans from the Government.

New Issues

Under authority of the Canadian National Railways Refunding Act, 1935, and the Financing and Guarantee Act, 1937, an issue of Canadian National Railway Company Dominion Guaranteed Bonds was made dated December 15, 1937, and January 15, 1938, the proceeds therefrom being used to retire temporary loans for capital purposes made by the Government during the years 1932 to 1937. The entire issue was sold in January, 1938. The issue comprised:—

\$20,000,000 2 per cent four-year bonds dated January 15, 1938; sold at 99 per cent at an annual cost of 2·26 per cent.

\$30,000,000 3 per cent thirteen-year bonds dated December 15, 1937; sold at 96·25 per cent at an annual cost of 3·36 per cent.

An issue of \$7,600,000 Canadian National Railways 2 $\frac{3}{4}$ per cent Equipment Trust Certificates, Series "P" 1938 was made to provide for the payment of part of the purchase price of new equipment costing over \$10,000,000. The certificates, which mature serially in fifteen annual instalments, were sold at an average of 97·81 per cent the annual cost being 3·08 per cent.

1938 Refunding Act

Under the provisions of the Canadian National Railways Refunding Act, 1938, temporary loans were received from the Dominion Government for retirement of the following issues:—

Rail & River Coal Company 5% First Mortgage Bonds due April 1, 1938	\$ 916,000
Canadian National Railway Company 2% 3 Year Bonds due May 1, 1938.. .. .	13,400,000
Canadian Northern Ontario Ry. Co. 3 $\frac{1}{2}$ % Debenture Stock due June 30, 1938	6,725,485
	<hr/>
	\$21,041,485

These temporary loans were repaid to the Government from the proceeds of a 2 $\frac{1}{4}$ per cent and 3 per cent Bond Issue dated January 15, 1939.

GENERAL

Pension and Social Security Plans

The total number of pensioners at December 31, 1938, under Canadian National pension plans totalled 6,913 as compared with 6,287 at December 31, 1937. Employees pensioned during the year numbered 991 and 365 pensioners died. Pension costs to the railway under the various pension plans in effect were \$4,159,798 in 1938 as compared with \$3,993,734 in 1937.

Under the United States Railroad Retirement Act and the Carriers' Taxing Act the tax payable (equal to 2 $\frac{3}{4}$ per cent of employees' compensation) in respect of system operations in the United States for the year 1938 amounted to \$461,000 as compared with \$515,000 in 1937.

The cost to the National System under United States Federal and State legislation dealing with unemployment insurance and old age benefits other than covered by the Railroad Retirement Plan amounted to \$595,000 in 1938 as compared with \$459,000 in 1937.

Trans-Canada Air Lines

During the year additional calls aggregating 47 per cent or \$2,350,000 on the capital stock (\$5,000,000) of Trans-Canada Air Lines were met by the Canadian National Railway Company. To December 31, 1938, the amount subscribed was \$3,200,000.

Unemployment Relief Expenditures

Under the Dominion Government Work Relief Program whereby among other things provision was made for financing of necessary construction with respect to highway crossing protection and other railway projects deferred under present conditions, several projects were undertaken by the Company wholly or partly at the expense of the Government. The more important of these projects involved subway construction at Montreal, St. Hyacinthe and Toronto, an overhead bridge at Prince Albert and a new station at Saskatoon.

Cartage Service

Effective February 1, 1938, the Company commenced operation of its own freight cartage services at Montreal and St. Hyacinthe, Que., and Brantford, Guelph and London, Ont., these services having previously been operated by outside contractors. This change has been well received by the shipping public and has resulted in economies.

Montreal Terminals

During the year a study was made of the Montreal Terminal project, work on which had been suspended for some years.

In such study the directors gave consideration to the following factors:—

- (a) The necessity for rational co-ordination of passenger and freight terminals of the Canadian National in the interests of efficiency and economy.
- (b) The adverse effect, financial and otherwise, upon the operations of the company through the continued use and maintenance of antiquated and unco-ordinated terminal facilities inherited from predecessor companies.
- (c) The long-standing grade crossing problem in Montreal.
- (d) The effect upon the development and growth of the city, industrially and otherwise.
- (e) The provision of a satisfactory suburban service between South Shore communities and the centre of the city.
- (f) The amount of money already invested in the property standing idle.
- (g) The necessary developments in the light of present day conditions and requirements as well as future necessities, including eventually, if decided upon, a union terminal.
- (h) The pre-eminent suitability of the location of the central station for a union terminal demonstrated by exhaustive study of the situation by the company's engineers as well as by a special independent study made by Sir Frederick Palmer, M. Inst. C.E., M.Am. Soc. C.E., who was engaged by the Dominion Government for the purpose.

The Directors therefore decided that the company should proceed with the completion of the terminal by stages as conditions warrant, taking advantage of any favourable factors which may from time to time prevail for doing work which contributes to the eventual completion.

The Dominion Government has recognized the importance of this project as a means of relieving unemployment and has contributed to the cost of the work a portion of the funds voted by Parliament in its construction and rehabilitation appropriation, and tenders have been called and contracts placed for the construction of certain items of the work. Further progress is contingent upon the project being assisted as an unemployment relief measure to the extent of the direct labour content of the work performed.

Co-operation

With a view to expediting progress on co-operative measures between the Canadian National and the Canadian Pacific Railways a new committee termed the Vice Presidents' Joint Committee was formed during the year, consisting of Messrs. N. B. Walton, R. C. Vaughan and Alistair Fraser for the Canadian National and Messrs. D. C. Coleman, George Stephen and H. J. Humphrey for the Canadian Pacific.

The Canadian National section of the committee has made certain proposals looking to further co-operative measures including amongst others a proposal for the pooling of all competitive passenger traffic throughout the Dominion.

It has been agreed that subject to approval of the Board of Transport Commissioners the following additional lines of railway should be abandoned:

From	To	Province	Railway	Mileage
Arnprior	Eganville	Ontario	Can. Nat.. . . .	37.91
Portage La Prairie	Delta.. . . .	Manitoba.	Can. Nat.. . . .	14.53
Oakland.	Cawdor	Manitoba.	Can. Nat.. . . .	11.55
Muir.	Gladstone	Manitoba.	Can. Nat.. . . .	10.30
McGregor	Varco.	Manitoba.	Can. Pac.. . . .	54.41
Hallboro	Beaulah	Manitoba.	Can. Nat.. . . .	75.19
Hamiota	Miniota	Manitoba.	Can. Pac.. . . .	19.80
Trelle	Morinville	Alberta	Can. Nat.. . . .	12.21
Carbondale.	Egremont.	Alberta	N. A. Rys. . . .	29.76

With regard to the 637 miles previously approved for abandonment, progress has been made in the development of the necessary agreements between the two railways. In the case of the Canadian National line between Middleton and Bridgetown in Nova Scotia and the Canadian Pacific line between Linwood and Listowel in Ontario, with respect to which agreements have been executed, applications for approval of the abandonments have been made to the Board of Transport Commissioners, but decisions have not yet been given by that body.

Vancouver Hotel

The agreement covering the joint operation of the new Canadian National hotel at Vancouver was completed on July 28, 1938. The Vancouver Hotel Company Limited was incorporated under date of October 4, 1938, with an authorized capital stock of \$500,000, to be held in equal portions by the Canadian Pacific and Canadian National. The opening date of the new hotel, which will be known at the "Hotel Vancouver," has been set for May 25, 1939.

Property Abandonments

With a view to accomplishing economies in operation wherever compatible with adequate service to the public, examinations were continued into the possibility of abandonment of light traffic branch lines. During the year 1938 authority for abandonment was received from the Board of Transport Commissioners for the following lines:

From	To	Province	Mileage
Dombourg	St. Marc.	Quebec	22.25
La Jemerais.. . . .	Mont Mills.. . . .	Quebec	6.04
Farnham	Frelighsburg . . .	Quebec	17.90
Twin City Junction. .	Mackies.. . . .	Ontario.. . . .	35.40
James Bay Junction .	Otter Lake.	Ontario.. . . .	2.86

In addition to the foregoing, authority was given by the Interstate Commerce Commission to abandon 25.76 miles from Cambridge Junction to Essex Junction in the State of Vermont, forming part of the Central Vermont Railway.

General Outlook

The reduction in railway revenues for 1938 marks the first set-back from the slow but steady annual increase since 1933.

The situation in 1938 was not peculiar to Canada. In the United States the railroads suffered one of the worst years in the history of transportation. In Great Britain the slump in railway revenues gave much concern to railway management in that country and was the subject of appeal to the British Minister of Transport with particular reference to necessity for equality in competition in the transportation field.

While the decline in business in 1938 was a continuance of the general recession which started in the latter part of 1937, the prospects for 1939 are more favourable since there is indication that the improvement in conditions experienced late in 1938 will continue. The influence of the present improvement in the United States will also be felt by the Canadian National Railways.

OBITUARY

Record is made with deep regret of the following deaths during 1938: Hon. C. P. Fullerton, K.C., former Chairman of the Board of Trustees, died October 5, 1938; Mr. D. B. Hanna, first President of the Canadian National Railways, died December 1, 1938.

Acknowledgment is made of the loyal and efficient service rendered by officers and employees and of the patronage extended to the Canadian National Railways by the public during the year 1938.

For the Board of Directors,

S. J. HUNGERFORD,
Chairman.

The CHAIRMAN: Gentlemen, before proceeding with the discussion of the report the management have a special statement prepared on the Montreal terminal which they want to place on record. I should like to hear that report read before we start the discussion. Mr. Fairweather will present this report.

Mr. S. W. FAIRWEATHER: Mr. Chairman and gentlemen, this memorandum is an elaboration in more detail of the reference to the Montreal terminals which is included in the annual report. It goes into considerable detail, but that detail is necessary for a proper understanding of the situation. I shall read you the statement:—

STATEMENT OF CANADIAN NATIONAL POSITION WITH REGARD TO THE MONTREAL TERMINALS

Following upon a careful study of all factors, the Canadian National board of directors decided to resume work on the Montreal project of the railway, but on a substantially modified plan. The study made showed that while passenger operating savings alone would not give an adequate return on the investment immediately, the segregation of the passenger terminals and coach yards made possible future adjustment of separate freight handling facilities which would justify the expenditures involved and to be involved. Added to this were the practical necessity of dealing with an aggravated situation of four passenger terminal stations on one system conducted and operated with little relation to each other, public service and convenience, grade crossing and congestion atrocities, the future of the city, growth of traffic and other important collateral considerations.

As to the necessity of the work being undertaken in the near future there could be no question; and the undertaking of the work at this time made possible a saving in cost of approximately 40 per cent, which is to be defrayed as an unemployment project and not chargeable to the company.

The factors studied by the board of directors were as follows:—

(A) The necessity for rational co-ordination of passenger and freight terminals of the Canadian National in the interests of efficiency and economy.

(B) The adverse effect, financial and otherwise, upon the operations of the company through the continual use and maintenance of antiquated and unco-ordinated terminal facilities inherited from predecessor companies.

(C) The long-standing grade crossing problem in Montreal.

(D) The effect upon the development and growth of the city, industrially and otherwise.

(E) The provision of a satisfactory suburban service between South Shore communities and the centre of the city.

(F) The amount of money already invested in the property standing idle.

(G) The necessary developments in the light of present day conditions and requirements as well as future necessities, including eventually, if decided upon, a union terminal.

(H) The pre-eminent suitability of the location of the central station for a union terminal demonstrated by exhaustive study of the situation by the company's engineers as well as by a special independent study made by Sir Frederick Palmer, M.Inst.C.E., M.Am.Soc.C.E., who was engaged by the Dominion Government for the purpose.

A synopsis of the consideration which was given to each of these factors is as follows:—

(A) *The necessity for rational co-ordination of passenger and freight terminals by the Canadian National in the interests of efficiency and economy.*

The terminal facilities of the Canadian National Railways on the Island of Montreal consist of those of the former Grand Trunk Railway and of the Canadian Northern Railway. These facilities have not been added to nor have they been changed except to a minor degree since the incorporation of the Canadian National Railway Company in 1919. Neither the Grand Trunk nor the Canadian Northern considered its terminal facilities adequate for its business and each had terminal development plans either under contemplation or under construction when the companies came under the control of the government. The rational co-ordination of the passenger and freight terminals in the interests of efficiency and economy has not been brought about.

The terminal facilities, to which reference is made, consist of various lines of railway which converge on Montreal and the freight and passenger facilities consisting of passenger depots, coach yards for storing, cleaning and otherwise servicing passenger train equipment, freight yards for the accommodation of freight trains, assembling of cars into trains, classification of cars for switching to industries, provision for storage and repair of cars, engine houses and freight sheds for handling inbound and outbound less-than-carload traffic, as well as team tracks and many other facilities which are necessary in a complicated terminal of a large city.

Now, gentlemen, we have available a map which shows the general situation in Montreal, and I would ask Mr. Armstrong to briefly run over the situation there with a pointer so that we may have an understanding of just where the Montreal terminal problem is. In the first place, you will notice that the approaches of the Canadian National Railways to Montreal consist of lines which concentrate at the end of the Victoria bridge. Those lines are the main lines to the Maritime Provinces, the main line to Boston and New York, and a line serving the segment which lies between the St. Lawrence river and the Richelieu river. Coming in from the west you have the main line of the Canadian National which crosses the island at Ste. Anne's. That is the red line.

Mr. YOUNG: What is the purple line?

Mr. FAIRWEATHER: That is the Canadian Pacific railway. Then on the north of the island you will see two lines which cross what is known as the Back river. There is the Canadian National line into the Laurentians, which furnishes also a connection to Hawkesburg and Ottawa. The other line crosses the river at Bout de L'Ile and comes in at the east end of the city. Then there is the electric line which crosses the Victoria bridge and serves the suburban and urban territory on the south shore of the St. Lawrence, reaching a terminus at the foot of McGill street.

Mr. YOUNG: What line was that originally?

Mr. FAIRWEATHER: The Montreal and Southern Counties Railway. Now, the remarkable thing about those lines when you look at them is this, that they approach the city from each quarter of the compass—north, south, east and west—and the other remarkable thing about them is that when they reach the city they fail to be co-ordinated. I will ask Mr. Armstrong to point out Bonaventure station on the map; and Moreau street; the tunnel terminal and McGill street. Each of those stations in the metropolitan area is independent of the other and has to be served as an independent unit. They constitute, together with the freight facilities which go along with the passenger facilities, the Canadian National terminal problem in Montreal.

With regard to the freight yards, I might point out that there is a yard at Point St. Charles; there is another yard at Turcot; and there is a yard at Longue Pointe. Now, Turcot yard and Point St. Charles yard are connected by the main line of the C.N.R., but each of them is inadequate for the business that is being done there. Longue Pointe yard in the east end of the city has no connection by Canadian National rails with the facilities at the west side of the city unless you go clear out to Joliette and come away round back into the city the other way, a distance of 108 miles. As a temporary measure, for a considerable number of years now, the Canadian National reaches those facilities in the east end by an interchange across the harbour belt railway, and this works reasonably well, but in periods of congested traffic when the harbour is busy it does not make a satisfactory connection.

That brief sketch regarding the map will give you some background of what the Montreal terminal problem consists, namely, the co-ordination of four disconnected passenger facilities and the adaptation and improvement of freight facilities, so that taking the Montreal facilities which were inherited from predecessor companies, they could be consolidated into one unit, capable of being operated effectively as a unit.

The following is a tabulation of the principal elements which comprise the existing Canadian National terminals:—

RAILWAY LINES CONVERGING ON MONTREAL

South of St. Lawrence River	
Subdivision	Route from
Rouses Point & Massena	St. Johns, Que., New York, Boston, Massena.
St. Hyacinthe	Maritime Provinces, Sherbrooke, Quebec, Portland, Maine.
Sorel	Sorel, St. Gregoire.
M. & S.C. Ry.	St. Cesaire, Granby.
M. & S.C. Ry.	St. Lambert, Montreal South.
North of St. Lawrence River	
Subdivision	Route from
Cornwall	Ottawa, Toronto and West.
Mount Royal	Laurentian Mountains, Hawkesbury, Ottawa.
L'Assomption	Quebec, Lake St. John, Noranda, etc.
Passenger Stations	Coach Yards
Bonaventure (Terminal)	St. Henri.
Tunnel Terminal	Longue Pointe.
Moreau St. (St. Cath. East) (Terminal)	St. Lambert (M. & S.C.).
McGill St. (M. & S.C.) (Terminal)	Tunnel Terminal.
St. Henri	
Point St. Charles	
Freight Sheds	Freight Yards
Bonaventure	Turcot
Fruit Terminal (Guy St.)	Point St. Charles.
St. Henri	Longue Pointe.
Moreau Street	Southwark (Not in use).
Point St. Charles	
Cote St. Paul	
Engine Houses	Principal Team-Tracks
Turcot	Charlebois St. (Bonaventure).
Longue Pointe	Cote St. Paul
Val Royal (Elec. Shop)	Gilmour (St. Henri).
St. Lambert (M. & S.C. Car House)	McGill Street.
	Wards (Atwater Avenue).
	Moreau Street.
	Cartierville.

There are numerous other locations where freight is loaded and unloaded on C.N.R. team tracks.

This table gives some indication of the disjointed nature of the Montreal terminals, which can be readily understood from the history of the predecessor companies. Certainly if the Montreal terminals had developed as a unit, this condition of affairs would not now exist. For a full realization of the disjointed nature of the facilities it is necessary to refer to the terminal layout in detail. It will be seen that the facilities lying in the north of the city and which are connected by the tunnel under Mount Royal with the Lagauchetiere street station, depend, for a connection with the facilities in the west end of the city, on a single track line of railway.

That is a line known as the Lachine, Jacques Cartier, Maisonneuve railway. It is available for freight purposes and is valuable; but it is a single track line and is subject to congestion.

The facilities lying in the east end of the city have no terminal connection with the facilities in the north or the facilities in the west. Only between the south and west is there a co-ordination of facilities and even in those quarters the Montreal and Southern Counties Railway remains unco-ordinated with other facilities.

This condition of affairs makes it necessary, in effect, to carry on three steam railway operations and one electric operation, and is apparent to the travelling public because it is well known that Bonaventure station, Lagauchetiere street station, Moreau street station and McGill street station are all as distinct as if they were operated by different railways.

A similar condition, which is not so apparent to the travelling public, exists as regards freight traffic and, from the railway operating standpoint, is an even greater handicap. The disjointed nature of the facilities causes a considerable duplication of effort and limits the freedom with which traffic can move in and out of the various lines which converge on Montreal. It is true that an arrangement is in effect for the National Harbours Board to transfer cars to and from the Canadian National facilities in the east end of the city, but this arrangement has been found to lead to considerable delay during the season of navigation when the harbour facilities are being utilized practically to capacity. While it is possible for the company to operate with these disjointed facilities, it is only plain common sense to plan for the co-ordination of them into a rational and coherent unit. Economies would be effected by such a co-ordination and there would be a general improvement as the result of the increased efficiency with which terminal operations would be conducted.

- (B) *The adverse effect, financial and otherwise, upon the operations of the company through the continued use and maintenance of antiquated and unco-ordinated terminal facilities inherited from predecessor companies.*

The operating disabilities which arise from the disjointed terminal facilities undoubtedly have an adverse effect upon the company's operations, not only as regards the cost of handling existing traffic, but also due to the adverse effect upon the company's ability to obtain prospective traffic by reason of ancient and unco-ordinated facilities. Certain of the facilities are suffering not only from lack of co-ordination, but also from being obsolete. This is very evident to the public in the main passenger station at Bonaventure, which is no credit either to the railway company or to the city. The continued operation of such an inadequate and obsolete passenger station undoubtedly has an effect upon the passenger traffic of the railway.

Joint with every passenger terminal and an inherent part of its operation is a coach yard, and from the standpoint of operating costs the station and coach yard must be considered as a unit. The coach yard which serves Bonaventure Station is located at St. Henri. It is obsolete, but owing to the confined space it is impossible to modernize the facility if it is maintained in that location.

The main freight facilities are at Turcot, where there are yards for the accommodation of freight trains and for classification purposes. These yard facilities, although admirably located, are not of sufficient size and character to enable all yard operations to be carried on there, and it is necessary to use still older yard facilities in Point St. Charles to supplement them. This results in switching operations and transfer

movements which would be unnecessary if the Turcot facilities were adequate. Careful studies of the situation have indicated the possibility of economies from a re-arrangement of the Turcot facilities. In order to procure space for this improvement and enlargement, the adjacent area now occupied by the St. Henri coach yards must be utilized.

One antiquated feature of the terminal facilities inherited from the Grand Trunk is that freight and passenger terminal facilities are mixed together, whereas for maximum efficiency of operation at Montreal it is desirable to segregate the passenger and freight facilities in the terminal area as far as possible. The Bonaventure area contains both main passenger and freight facilities, as well as the large fruit and produce terminal and other industries. This condition creates difficulties in handling both classes of traffic in order to avoid interference between the two types of movement, and so long as it is continued it is impossible for the railway to modernize either the freight or passenger facilities in that area because of lack of space. With the development of competitive highway transport, the freight shed facilities of the railway become of greater importance and must conform to the requirements of convenience, accessibility and low costs of operation.

The adverse effect of antiquated and unco-ordinated facilities is not limited to the excess cost of terminal operation, but extends to the much wider field of prospective traffic and the ability of the railway to attract industries to locate on its lines of railway. The railway must plan for future development and must be able to offer prospective industries prompt and efficient service; this can only be done if the terminal facilities are modern and co-ordinated.

(C) *The long-standing grade crossing problem in Montreal.*

If railways are to serve the city adequately with freight and passenger facilities, it is necessary to have lines of railway reaching into the heart of the city and also to have lines of railway serving the industrial zones. The Canadian National facilities in Montreal are no exception. The predecessor companies of the Canadian National each had serious grade crossing problems to face. In 1912, following prolonged study and hearings, oral judgment was given by the Board of Railway Commissioners under which the Grand Trunk Railway became liable to make grade separations estimated to cost 20 millions of dollars at present day prices. The consummation of that plan was deferred by the war. The Canadian Northern faced a similar problem in the east end of the city. Through pressure of public opinion, the problem again became acute in the spring of 1927 and as a result of an order of the Board of Railway Commissioners the Canadian National Railway system was asked to prepare a plan for solving the problem. It developed that there were 63 Canadian National grade crossings in the Montreal terminal area. The central terminal plan submitted to the board by the Canadian National in the fall of 1927 provided for the solution of this problem. After the expenditure of \$16,651,000 on this plan, work was discontinued in 1931 due to the depression and was not resumed until recent months. Since 1927, 17 grade crossings have been eliminated, either as the result of the partial construction of the terminal development prior to work being suspended or as works undertaken to relieve unemployment since that time. There remain 46 level crossings, several of which are at intersections with important streets. It is certain that the problem created by these remaining grade crossings is one which must be faced by the city and by the railway, and some plan looking to its alleviation must be proceeded with as financial conditions warrant.

(D) *The effect upon the development and growth of the city, industrially and otherwise.*

The effect of the terminal plan upon the growth of the city of Montreal is intimately connected with the elimination of grade crossings, the provision of conveniently located modern passenger station facilities, the improvement of streets in the congested part of the city, and, above all, the provisions of adequate freight facilities, including industrial trackage to serve new industries.

While the alleviation of the grade crossing situation as such does not present any opportunity for substantial economy to the railway, it does have great value to the city by allowing an uninterrupted flow of traffic on the city streets. This is particularly true of the city of Montreal, in which railway lines tend to interfere seriously with north and southbound street traffic. A particularly helpful feature of the terminal plan, from the standpoint of the city, is the opportunity which will be afforded of connecting Windsor street directly with Colborne street, which in turn leads to the vehicular traffic tunnel under the Lachine canal. Also, the new streets which are provided in the new passenger terminal area will relieve congestion, particularly by affording improved connections between the upper and lower levels of the city. The hotel and retail sections of the city will be brought into closer relationship with arriving and departing Canadian National passenger traffic by the provision of a modern passenger station on the Dorchester street site, thus adding to public convenience.

From the new passenger terminal a rapid-transit suburban service can be supplied to the northern sections of the Island of Montreal, through the Mount Royal tunnel, and also to south shore communities—St. Lambert, etc.—by means of the viaduct and the Victoria bridge. This suburban traffic will become increasingly important as the city develops. The construction of an additional highway on the Victoria bridge would be a great improvement to one of the main entrances into the city; the co-ordination of the M. & S. C. railway as part of the terminal plan will permit this improvement to be made.

(E) *The provision of a satisfactory suburban service between south shore communities and the centre of the city.*

For a number of years the provision of a satisfactory suburban service between the south shore communities and Montreal has been a problem. The south shore communities have repeatedly approached the Canadian National with a view to improving services, pointing out the inadequacy of the Montreal and Southern Counties terminus at McGill street, situated at a great distance from the retail centre of the city, also the limitation upon the service caused by the fact that the railway has to use street car tracks to reach its Montreal terminus and operates over a single track on the Victoria bridge. With the building of the Montreal terminal, it will be possible to provide an excellent suburban service to the south shore communities, furnishing them with an expeditious movement via the terminal viaduct into the centre of the city.

(F) *The amount of money already invested in the property standing idle.*

The amount of money already invested in the Montreal terminal development is \$16,651,000. So long as these works are not proceeded with, this, to a large extent, represents a dead loss, neither the city nor the railway obtaining a commensurate benefit from the outlay already made.

- (G) *The necessary developments in the light of present-day conditions and requirements as well as future necessities including eventually, if decided upon, a union terminal.*

In the light of present developments, the minimum requirements to segregate the passenger and freight terminal facilities of the Canadian National Railways and to provide for the development of the central passenger terminal on a scale suitable to handle the present and reasonably prospective business, consist of a passenger station with 11 station tracks, street approaches, baggage, mail and express facilities, the completion of the viaduct to the Victoria bridge with a connection to Point St. Charles, construction of a coach yard at Point St. Charles and the electrification of the approaches.

Although designed primarily to meet Canadian National Railways requirements, the central passenger terminal can be adapted to development as a union passenger terminal with a minimum of additional expense.

I would say that the cost of providing the facilities indicated above is \$12,600,000. That is for providing the passenger facilities, the viaduct and the rest of it.

- (H) *The pre-eminent suitability of the location of the Central station for a union terminal demonstrated by exhaustive study of the situation by the company's engineers as well as by a special independent study made by Sir Frederick Palmer, M. Inst. C.E., M. Am. Soc. C.E., who was engaged by the Dominion Government for that purpose.*

In discussing the question of a Union station in Montreal, the interests of all parties have to be considered; that is, the interests of the travelling public, the city and the Canadian National Railways must be considered as well as those of the Canadian Pacific Railway Company. There are many reasons why the Windsor street site is not suitable to the travelling public, the city and the Canadian National Railways as a union station, none of which apply to the Dorchester street project either from their standpoint or the standpoint of the Canadian Pacific Railway company. Considered on that basis, it has been demonstrated that Windsor street station is incapable of being made into a true union station, but that the Dorchester street site has all the attributes of such a station.

The reasons are as follows:—

1. *Authoritative statement of an outstanding consulting engineer, chosen by the Government of Canada to report impartially upon the railway terminal plan for Montreal.*

Sir Frederick Palmer, M. Inst. C.E., M.A.M. Soc. C.E., consulting engineer, was selected by the government, in effect, to arbitrate the conflicting views of the Canadian National and Canadian Pacific Railways. His conclusions are free from bias, because he was employed neither by the Canadian National nor by the Canadian Pacific. He brought to bear upon the problem his best engineering ability and wide experience. His conclusions must be given great weight, particularly since his point of view was that of the best interests of the city and of the nation. The pertinent excerpts from Sir Frederick Palmer's report, bearing upon the use of Windsor Street Station as a union terminal, are as follows:—

"Many other proposals had previously been submitted to the railway authorities or to the press, which are mainly on the lines of providing a Union Station for both the C.P.R. and C.N.R. systems. Some of the schemes put forward had been prepared by engineers, but most of them might be described as 'amateur efforts.' It is believed that every one of these proposals has been carefully considered (certainly all the known proposals have been examined) and it is no disparagement to even the best of these schemes to say that the C.N.R. plan, which has resulted from prolonged study of the question in all its aspects by the extremely competent officials of that railway, is incomparably the best."

Hon. Mr. STEWART: What is the date of that report?

Mr. FAIRWEATHER: 1929.

"Since the plan was made public, the C.P.R. authorities, in response to the request to give it consideration, engaged the C. E. Smith Co. of Consulting Engineers, St. Louis, to review the proposals. The outcome of their report is the adoption of the present Windsor street station site for a union station, with access thereto from the C.N.R. by a new line from St. Henri on that railway to a point on the C.P.R. slightly west of Windsor street station, and it is believed that, in further study of the question, it is admitted that no other alternative seems practicable.

"Now the existing Windsor street station, although not modern, is well equipped, and affords ample accommodation for the present traffic of the railway system it serves. Without considerable extension it would not suffice for any large increase in passenger traffic, and certainly not for the additional facilities which would be necessitated by the addition of C.N.R. traffic. It is understood that the C.P.R. authorities have in view the enlargement of the station northwards, and there can be no doubt that, at a price, it can be sufficiently extended to provide for both railways in regard to present traffic and reasonable growth thereof.

"There are, however, other considerations in respect of which it falls far short of the legitimate requirements of a union station. It is not 'union' in the sense of being a centre from which lines radiate, or can radiate, to north, south, east and west. That is impossible without detours of varying magnitude in all directions excepting the west—the principal direction admittedly. Then it is not nearly so well served by the main arterial roads of the city, which may be said to lie between Sherbrooke street on the north and Notre Dame street on the south, both inclusive. Its main access is by Antoine street, and other west to east main streets are only reached by cross roads. The connecting line to the C.N.R. can only be made mainly on a viaduct running diagonally across Antoine and St. James' streets, and over several cross roads, without any reasonable prospect of the viaduct being flanked by buildings as is proposed for the short viaduct south of the tunnel site station.

"It is believed that the C.P.R. authorities are convinced that the Windsor street site is the only other possible one which could be considered, and as they must be fully aware of the many projects which have been made public from time to time, it follows that, in their opinion, a Union station is only possible at Windsor street or the tunnel site. For the reasons given in the last paragraph, Windsor street, besides having other disabilities, is not in reality a Union station.

"The tunnel site on the other hand, possesses every attribute which a central station can have. Geographically, it is somewhat nearer to the trade centre of gravity. It is nearer to the commercial and financial centres and nearer, also, to the more densely populated portion of the city lying between Victoria square and Mile End.

"No provision was made in the original proposal for admitting the C.P.Ry. It was conceived solely for the purpose of providing passenger facilities for the Canadian National lines serving Montreal and, consequently, was in no sense a Union station. It may be that the C.N.R. officials were concerned in serving only their own needs, but the development of the project, which so obviously follows upon consideration of the general lay-out, is so important that some little trouble has been taken in adapting the site to the possibility of a real Union station. Alterations of a very minor character have converted it into a really first-class Central Terminal station project for Montreal, in which present and future traffic from all directions can be accommodated.

"Whether the C.P.R. are, or are not, prepared to take advantage now of this opportunity of bringing all their Montreal traffic into one Central station remains to be seen, but whether it be now or later, the time is bound to arrive when the tunnel site becomes the Union station of the city—not only for main line long-distance traffic but also for suburban rapid-transit trains.

"If it be granted that a joint terminus is desirable, then there can be no question about the tunnel site being the best, seeing that it is the only one yet produced affording direct access from all sides. Nothing that can be done at Windsor street will allow of equal facilities to the public, and it is maintained that anything short of the best possible is not good enough for a city of the importance of Montreal.

"This site affords possibilities of union terminal facilities which cannot be given at any other place, and it seems highly desirable that advantage be taken of this opportunity of concentrating passenger traffic.

"The purpose for which these two belated proposals are submitted is not understood. There is nothing to recommend one or the other, and it is obvious that they are 'compromise' suggestions, in which the true needs of Montreal are sacrificed to vested interests. The only lesson to be learned from them is that if they represent the best that can be devised as alternatives thereto, the tunnel proposal stands without a real competitor."

Those are extracts from Sir Frederick Palmer's report.

Mr. HOWDEN: Could we have the proposed site on the map?

Mr. FAIRWEATHER: Yes, it is on that map, but there is another map which shows it in detail.

Mr. WALSH: Will you point out the Windsor street station. I want the members to note that there is not such a tremendous difference in distance between the Canadian National tunnel site and the Windsor street station as was suggested in the report. It is actually only two blocks. You start at Windsor street.

Mr. ARMSTRONG: This is merely a diagram and is not drawn to scale.

Mr. WALSH: Anybody landing at Windsor street station can almost look down upon the tunnel station.

Mr. FAIRWEATHER: Mr. Armstrong, will you point out on the map the pertinent facts of the terminal plan so far as it relates to the central station and the approaches thereto. The station itself will be located just south of Dorchester street.

Mr. ARMSTRONG: This plan shows from Dorchester street to Victoria bridge.

Mr. WALSH: Is the connecting line a new line?

Mr. ARMSTRONG: Yes, elevated; it is part of the viaduct. The viaduct divides into two parts at this point.

Mr. WALSH: When you get back on your main line do you cross the Lachine canal?

Mr. ARMSTRONG: Yes.

Mr. WALSH: Then you cross it again?

Mr. ARMSTRONG: This is the present—

The CHAIRMAN: Will you describe that again?

Mr. ARMSTRONG: (Indicating on Plan) This is the central terminal area with the station south of Dorchester street. This is Belmont street; the extension is to be put through. Then Lagauchetiere street, St. Antoine street and St. James street; there is an elevated viaduct crossing all these streets. The grades are separated. This is the new viaduct leading from the central station to Victoria bridge. This connection here is also elevated to connect the viaduct and the existing main line from St. Henri to Victoria bridge.

Mr. DEACHMAN: Will you trace that line from Ottawa?

Mr. ARMSTRONG: The line from Ottawa is through Coteau, Turcot yards, St. Henri into Bonaventure station.

Mr. WALSH: I want the committee to notice that on the line he has just traced there are no crossings of the Lachine canal. Now, trace the new line, the proposed line going from Ottawa to Montreal. One will cross the Lachine canal and the second crosses the Lachine canal, and is it not going to take you longer to get your trains in?

Mr. ARMSTRONG: For the present that is the plan.

Mr. WALSH: We all know the difficulty of putting trains across the Lachine canal, and at the present time they are not crossing it, and with your new proposal you are going to cross it twice. It is going to interfere with the traffic on the Lachine canal seriously. It severely interferes with your faster trains from the west.

Mr. ARMSTRONG: I think that Mr. Fairweather will give you something on the crossings.

Mr. FAIRWEATHER: The question, I take it, is that the proposal to route the Canadian National trains which cross the Ottawa river at St. Annes into the new central terminal will lead to delays both to railway and canal traffic by reason of the fact that those trains will cross the canal twice whereas they do not now cross the canal at all. Is that the question?

Mr. WALSH: Yes.

Mr. FAIRWEATHER: Of course, that situation is one which was carefully examined before we considered adopting that particular type of entrance as an alternative to the other entrance which could be made north of the mountain. Careful observations were made as to the interference which takes place on the trains which now cross the canal at or near St. Henri and also to the interference which takes place on the Montreal and Southern Counties trains down at this end of the canal (Black's Bridge). Observations were taken to find out what that interference would amount to in terms of railway traffic and also in terms of canal traffic, and it is my judgment, based upon that study made under my own direction, that this particular objection to the terminal plan is one that looms large when you talk about it but when you get down to brass tacks—

Mr. WALSH: Does it not loom large as a factor—not as a talking factor but as a real economic factor?

Mr. FAIRWEATHER: I am speaking as one who has made a study of the situation.

Mr. WALSH: Your suggestion was—

Mr. FAIRWEATHER: I repeat that after careful investigation it developed that the interference which might be considered as serious has not turned out to be so serious. Now, as a matter of fact, the common impression is that most of the trains reach Montreal from the west. That is far from being true. There are a great many more trains on the Canadian National which reach Montreal by crossing the St. Lawrence river, including the Montreal and Southern Counties railway, and every one of those trains has to cross the Lachine canal now. The actual increased burden that is placed upon the canal crossing does not amount to very much when you look at it in the perspective of all the traffic.

Mr. WALSH: What are the relative figures in connection with that statement?

Mr. FAIRWEATHER: When we talk of the crossings of the canal I would say they would be probably in the ratio of about one to six.

Mr. WALSH: Six trains from the south against one from the west.

Mr. FAIRWEATHER: Six crossings of the canal from the Victoria bridge end to one that would be added at St. Henri by this particular move. The reason for this is as I said that there are more trains crossing the St. Lawrence river at Victoria bridge than there are at St. Anne's. That is true because of the Montreal and the Southern Counties.

Mr. WALSH: Does that include the Montreal and Southern Counties?

Mr. FAIRWEATHER: Yes.

Mr. WALSH: Montreal, St. Lambert, and so on.

Mr. FAIRWEATHER: Yes, but they are all crossings. Now, there are also, from an engineering standpoint, certain alleviating features. The present crossing of the canal by the Montreal and Southern Counties railways is by a swing bridge, and it is slow, whereas the crossing of the canal which is proposed is going to be by means of the most modern type of lift bridge which will minimize the time of interference of trains and canal carriers. I am satisfied, after having made a careful study of it, that at the present volume of traffic there will be no noticeable interference to trains arriving and departing in the central station. It must be kept in mind, too, that for five months of the year there is no interference whatever because the canal is frozen up, and also that for a period in the spring when the canal is officially open the traffic on it is very light, so that the actual time at which this interference might be considered to be serious, when you spread it over the year, does not constitute a serious factor. And again I want to emphasize that after a careful and detailed study of these canal crossings it is my considered judgment that canal carriers are not going to find their traffic interfered with materially and passengers arriving and departing by the Canadian National railway terminal are not going to be seriously interfered with either. Many of you who have come into Montreal on the Maritime Express or the Ocean Limited or by any train on the Canadian National railway that brought you into the city from south of the St. Lawrence river—did you suffer any noticeable delay at the canal? It is one of those things where we have facilities, transportation facilities, which to a degree come in conflict, and it needs a certain amount of intelligent control, signalling apparatus and mutual accommodations. I do submit that the Canadian National Railways would never think for one moment of subjecting its passenger traffic to a serious delay by these canal crossings, and it was for that reason that the idea was very carefully examined; and I do submit that the result of a careful examination like that, based upon the experience of the Canadian National in this canal crossing situation, is something that needs to be given consideration.

Of course, I have qualified—I want to qualify my statement by saying that if passenger traffic, and particularly if the freight traffic increases to a point where the capacity of that line of railway (between St. Henri and Victoria

Bridge) becomes taxed, that is the double track line of railway crossing the canal at St. Henri—if the freight business—it is not alone the passenger question—but if the freight business on that line becomes of such a volume that there is interference between freight and passenger movement, then something will have to be done about it. There are alternative entrances into the central station for trains from St. Anne's. If we refer to this other map showing the original terminal plan contemplated, the cut-off, as Mr. Armstrong has pointed out, it will take the trains right into the central terminal. That cut-off was part of the larger terminal plan before it was changed to this modified basis. Much of that right-of-way for that line is owned by the Canadian National. The construction of it as an outer belt line, if and when the capacity of the other line is taxed, is entirely feasible and can be carried out without a large expense.

Mr. YOUNG: What is the length of that little green line between the two red lines?

Mr. FAIRWEATHER: That cut-off across there?

Mr. YOUNG: Yes.

Mr. FAIRWEATHER: About six miles.

Mr. DEACHMAN: Would it be satisfactory to operate a railway like that with heavy traffic through a tunnel?

Mr. FAIRWEATHER: Now, with regard to that I think it would be entirely satisfactory for any volume of traffic, including the interurban traffic to the north that is possible of development for a long time to come. The capacity of a double track line is really very great, and this is a double track tunnel. Moreover the tunnel is divided up into signalling sections so that one train can come out after another with complete safety because the locomotives will be automatically interlocked. The capacity of the tunnel is very high. I would say that I cannot in the future see any possibility within any time that we talk about of the capacity of that tunnel being exceeded by the Canadian National Railways. Of course, there is another alternative method of coming in north of the station.

Mr. YOUNG: What is the length of that tunnel?

Mr. FAIRWEATHER: About three and one-half miles.

Mr. YOUNG: Can you operate steam trains there?

Mr. FAIRWEATHER: No, it is all electric. Now, if as I say, the line crossing the Lachine canal at St. Henri should become congested by reason of interference with freight and passenger traffic, and if it were not considered desirable to build a belt line, there are two other alternative methods of getting into the station. That is the beauty of this central station location—the ease with which it can be reached. Will you point out, Mr. Armstrong, the Lachine, Jacques Cartier and Maisonneuve railway, and point out how a train from the west coming over that line could get into the tunnel

Mr. ARMSTRONG: (indicates with pointer).

Mr. WALSH: That is taking right-of-way from the Canadian Pacific.

Mr. FAIRWEATHER: No, that is Canadian National—the Lachine, Jacques Cartier, Maisonneuve railway.

Mr. WALSH: But from Dorval.

Mr. FAIRWEATHER: Oh, between Dorval and Ballantyne, yes, that is quite true that it would mean running rights there. The other way would be to take trackage rights from the Canadian Pacific railway from Dorval and come in around the back of the mountain into the tunnel. If, as I say, freight and passenger traffic should get to the point where it would tax the canal crossing at St. Henri it is entirely feasible to get into the tunnel from the north, and it is relatively inexpensive. I would like to say also in connection with this canal crossing that the removal of the Montreal and Southern Counties trains

from the swing bridge to the new bridge, is going to make an improvement in the internal movements in Montreal between the canal crossing and the terminal.

Mr. YOUNG: Under the original proposition was it not intended that a train going to Ottawa would go through the tunnel?

Mr. FAIRWEATHER: Well, originally it was proposed that way, but a careful study of the situation indicated that the amount of money represented in that connection could be saved by bringing the trains through St. Henri and then through Point St. Charles and into the new station area.

Hon. Mr. HOWE: Of course, only passenger trains would come in that way; the freight trains would come as now.

Mr. FAIRWEATHER: The freight would be undisturbed just the passenger trains.

2. Geographical Location.

A union station, if it is to serve the true needs of a large city, must be convenient of access to all lines of railway which converge on the city. Windsor Street station does not meet this requirement for Montreal. It affords direct access from only one direction. In all other directions, trains must make detours in order to reach it. As compared with this, the Canadian National central terminal is remarkable in that all railways which approach Montreal from the south and east of the St. Lawrence can be brought to a single point of concentration at Victoria bridge and, similarly, all trains from the north and west can be brought to a point of concentration north of the Mountain.

I think, Mr. Armstrong, that is sufficiently important to be pointed out on the map. Everything that approaches Montreal from the south can be brought to a focus at the Victoria bridge, and that applies as well to the trains of the Canadian National and the Canadian Pacific—a connection at St. Johns, Quebec, would enable the Canadian Pacific trains to be routed in over the Victoria bridge.

Mr. DEACHMAN: Where do those C.P.R. trains to the maritimes go out?

Mr. FAIRWEATHER: They leave Windsor station, cross the canal at Lachine, cross the St. Lawrence, skirt around Laprairie basin and cross the Canadian National line at St. Johns.

Mr. DEACHMAN: Then take the C.P.R. line to Quebec, where does it run?

Mr. ARMSTRONG: (Indicating on plan) The C.P.R. train to Quebec either leaves the Place Viger station here, then to Park avenue and then to Quebec or from Windsor Street through Montreal West, St. Luc junction, Park avenue to Quebec. To reach Windsor Street station it has to run around the city, whereas the same train to reach the Canadian National central station can come right in without using that round-about route.

Mr. FAIRWEATHER: The Mount Royal Tunnel and the viaduct connecting it with the Victoria bridge afford the shortest possible link between these two points of concentration.

And that is the nub of the Canadian National terminal plan: the fact that you have these two natural points of concentration and you have the ability to put a link straight across the city by tunnel and viaduct without disturbing the city streets. It is really a unique sort of opportunity.

The location of the station at Dorchester street approximately at the middle point of this connecting link, permits trains of all railways converging on Montreal to enter the heart of the city directly instead of in a round-about manner.

Mr. Armstrong has indicated some of those round-about routes.

Sir Frederick Palmer contemplated Canadian Pacific trains reaching the central station by means of a tunnel. This, however, is only one method by which trains now using Windsor Street Station could be brought into the central station. Alternative connections at St. Johns, Quebec, and at the north portal of the Mount Royal tunnel would be considerably cheaper than a tunnel connecting the Canadian Pacific and the Canadian National Railways.

A table of the comparative distances from various points of approach to Windsor street and the central terminal shows the superiority of the central passenger terminal, as compared with Windsor street.

Direction	Distance to C.N.R. Terminal Station Shorter or Longer than to Windsor St. Station	
	Miles Shorter	Miles Longer
East and South of St. Lawrence River—		
C.N.R.—Maritime, Sherbrooke, Portland, Me... ..	22.3*	
Boston and New York... ..	6.4*	
C.P.R.—Maritimes, Sherbrooke, Boston... ..	6.4*	
New York... ..	....	2-3
West and North of St. Lawrence River—		
C.N.R.—Quebec... ..	6.4	
Laurentian Mountain Points... ..	6.8	
Ottawa, Toronto and West... ..	....	2.1
C.P.R.—Quebec... ..	6.4	
Laurentian Mountain Points and Ottawa (North Shore)... ..	6.4	
Ottawa, Toronto and West... ..	....	2.1

* These figures are based upon the use of existing railway routes to Windsor Street. If a viaduct were constructed from St. Henri to Windsor Street the figure would be 1.7 miles in each case.

For instance, take the trains of the Canadian Pacific Railways from the maritime provinces. They come in—

Mr. ARMSTRONG: (Indicating on plan) Through St. Lambert, Brosseau, Delson, Adirondack junction, Montreal West to Windsor station, as compared with the C.N.R. route through St. Lambert, via Victoria bridge and the new viaduct to the new terminal. That is about 22.3 miles further into Windsor station than it is into the central terminal from St. Lambert.

Now, indicate the route of trains from Boston and New York: they come through St. Johns, Brosseau, St. Lambert, the Victoria bridge and the viaduct to the new terminal as compared, in the case of the C.P.R. with St. Johns, Delson, Adirondack junction, Montreal West and Windsor station. That is 6.4 miles further into Windsor station than it is into the new terminal.

Mr. FAIRWEATHER: Indicate the C.P.R. through Sherbrooke and Boston?

Mr. ARMSTRONG: It is the same route from St. Johns into Windsor street station as for New York and Boston trains, and the saving would be the same, 6.4 miles, by using the central terminal.

Mr. FAIRWEATHER: Now, take the Canadian National line from Quebec. To the new terminal via L'Epiphanie.

Mr. ARMSTRONG: To get into Windsor street station from the junction at L'Epiphanie you would have to go through a junction at L'Epiphanie, St. Martin junction, Park avenue, Montreal West to Windsor street, as compared with, in the case of the C.N.R., from L'Epiphanie to St. Martin junction, through Jacques Cartier junction and Eastern junction into the new terminal; or via Jacques Cartier junction through Park avenue, north tunnel Portal—into the new terminal. The saving in distance is 6.4 miles, by using the central station.

Mr. FAIRWEATHER: Then indicate the routes into the Laurentians.

Mr. ARMSTRONG: From the Laurentians: the Canadian National route is through St. Eustache, eastern junction, directly through the tunnel to the new terminal, whereas in the case of the C.P.R. to Windsor street it is St. Eustache, eastern junction, a connection at Ballantyne, Montreal west to Windsor station. There is a saving of 6·8 miles using the Central station.

Mr. FAIRWEATHER: Then take the C.P.R. trains from Quebec. They show the same saving as the Canadian National trains, namely 6·4 miles; and the same is true of the C.P.R. Laurentian trains.

Mr. ARMSTRONG: The Laurentians, yes.

Mr. FAIRWEATHER: Everything from the north will show a saving of 6·4 miles to 6·8 miles coming into the new tunnel as compared with Windsor street. Now, take the Delaware and Hudson from New York.

Mr. ARMSTRONG: The D. & H. now routes through Rouse's Point, Delson, Adirondack junction, and Montreal west to Windsor street. The alternative route would be through St. Johns and into our terminal.

Mr. FAIRWEATHER: I think that will give you an idea of the various routes that are available into the central station area and into Windsor station, and indicates that for the majority of trains coming into the terminal the distance is considerably shorter to the new station at Dorchester street than it would be to Windsor station.

Mr. WALSH: Could you point out the route using Place Viger station as a union station, as a nice short run to the city of Quebec?

Mr. ARMSTRONG: Assuming Moreau street trains used Place Viger, the route would be this route (indicating).

Mr. YOUNG: Why not the red route?

Mr. WALSH: I am taking a proposed route that would cut off at least one hour or an hour and a half on our trip to Quebec.

Mr. FAIRWEATHER: I think that is an over-estimate.

Mr. WALSH: I have heard it mentioned so frequently that I would like to have it checked up. It aroused my enthusiasm.

Mr. FAIRWEATHER: It is a little over-estimated. I would like to say about that situation—you see the red line running out of Bout de L'Ile.

Mr. ARMSTRONG: From Moreau street to Bout de L'Ile.

Mr. FAIRWEATHER: You see the blue line running from Place Viger station east and then north. It is undoubtedly true that the route from Place Viger via the Canadian National to L'Epiphanie is shorter than the other route.

Mr. VIEN: By how much?

Mr. FAIRWEATHER: I think it is about fifteen miles. In running time it would be about twenty-five minutes, I suppose.

Mr. VIEN: What about the grade between Montreal and St. Martin junction?

Mr. FAIRWEATHER: The grades do not bother the passenger trains. What I am coming to is this. It really is not possible to get passengers from that red line into Place Viger station unless and until costly viaducts are constructed along the red line there or parallel to it at Longue Pointe. At one time the Canadian National and the Canadian Pacific had seriously under discussion this very proposal, and when the city of Montreal was approached with the idea of allowing that viaduct to be built or completed—known as the Rouen street line—the consent of the city could not be obtained and that line, I believe, is now being demolished. Now, there are one or two ways of getting that red line (C.N.R.) into Place Viger station.

Mr. YOUNG: How far are they apart now?

Mr. FAIRWEATHER: I do not think it is more than, perhaps, a mile.

Now, as to what I said: I said that for passenger trains it is difficult to get a connection; of course, there is a freight connection now. But there are two ways you can do it—at least, that you cannot do it; one is to attempt to go down over the harbour commissioners' track from Longue Pointe with a track running over the harbour commissioners' into Place Viger. That was investigated, but owing to the fact that the harbour commissioners' tracks are so used for harbour service it was not considered advisable to use that route. Another alternative would be to try to use the freight connection which exists between Moreau street and the Canadian Pacific facilities by using some of the yard tracks; that was looked into and it is physically possible to do it, but if you do it you are going to create a serious grade-crossing problem running passenger trains over those streets; you would be maintaining and aggravating a situation that is now there, by so doing. But as part of a large plan a satisfactory scheme could be worked out. I am simply detailing this thing which was seriously under consideration at that time. A viaduct was suggested, but the city would not have it. The thing was dropped when the attempt to use the harbour commissioners' track proved abortive and an attempt to develop a connection through the yard tracks of the Canadian National and the Canadian Pacific railways was not considered to be feasible; but, as I say, again it is a matter of dollars and cents.

Mr. WALSH: Your present plan contemplates continuing in use your present Moreau street station, it would continue to be a factor in your system?

Mr. FAIRWEATHER: As I pointed out, it is possible to take running rights over the Canadian Pacific railway from L'Epiphanie through St. Martin junction into our new terminal.

Mr. VIEN: Is that intended?

Mr. FAIRWEATHER: That is under consideration, yes.

Mr. WALSH: Mr. Fairweather mentioned Sir Frederick Palmer's name, that he was selected by the government?

Mr. FAIRWEATHER: Yes, sir.

Mr. WALSH: Was he selected by the government or by the Minister of Railways at that time?

Mr. FAIRWEATHER: Well, I may be in error there; certainly as far as we are concerned he came to us as a representative appointed by the government.

Mr. WALSH: What I wanted to get is this; if he was selected by the government I would like to have a copy of the Order in Council; if he was selected by the Minister of Railways I would like to have a copy of the letter of the Minister of Railways authorizing or recognizing his appointment.

Mr. VIEN: I think we find his instructions in this material before us.

Mr. WALSH: It is not there. I have not been able to find it.

Mr. VIEN: It hardly matters under whose instructions he acted.

Mr. FAIRWEATHER: In any event, that inquiry could hardly be directed to the Canadian National. As far as we are concerned he came to us accredited from the department of the government to whom we report.

Mr. WALSH: Yes, but he is put before us as an independent gentleman who is called in to study this plan. Now, can we recognize him as an independent consultant, or was he acting with the Canadian National officials to prepare that report that would lead to the tunnel station?

Mr. FAIRWEATHER: Oh, decidedly not. When Sir Frederick Palmer undertook his study I was one of those who contacted him, and if anybody had any idea that Sir Frederick Palmer did not make a searching study of the terminal situation in Montreal, he is very wrong. He was a very difficult man to satisfy.

Hon. Mr. HOWE: I might say that engineers are peculiar people, no matter who retains them they report according to their findings; and Sir Frederick Palmer was a determined man and an eminent engineer.

Mr. WALSH: I recognize his authority at the same time, no matter what his reputation might be, if he is under the command of a certain body as against another body naturally even an engineer is influenced by those for whom he is acting.

Mr. DEACHMAN: Are you implying that he was instructed that a certain job was to be put across there?

Mr. VIEN: Sir Frederick had been retained by the government in respect to the terminal of the Hudson bay railway. He was on his way back to England when this question was being studied by the Board of Railway Commissioners, and the minister, then the Hon. Mr. Dunning, retained him in Ottawa and Montreal to make a report on the situation. I think it will be easy to find in the Department of Railways and Canals instructions which were given to Sir Frederick Palmer at that time. He had been retained by the government through the Minister of Railways and Canals to make a report, as they sought to take advantage of his being in Canada to have the benefit of his views on the subject. Whether it was by Order in Council or by direction of the minister I do not believe it is material.

Mr. WALSH: There should be no objection to our having that information.

The CHAIRMAN: The minister has stated that he is going to make an inquiry in the department and report to us as a committee.

Mr. WALSH: Are we going to take this report up page by page or are we going to stay with the tunnel terminal until we are through with that?

The CHAIRMAN: I think we had better let Mr. Fairweather finish his statement. He is not quite through yet.

Mr. WALSH: He is not through? I thought he was.

Mr. FAIRWEATHER (continuing):

(3) *Convenience of Street Access*

Convenient street access to a large passenger station is very important. It is well known that the situation at Windsor street station is poor in that regard. It is situated on a steep side hill. St. Antoine street, which flanks it on the south, is comparatively useless, and the same is true of Windsor street on account of its steepness. This forces practically all vehicular access to the station on Osborne street, which is not a through street and is very narrow.

In contrast to this, the central terminal development provides for two new north and south street approaches which with connecting ramps will furnish vehicular access at each end and each side of the station and provide several outlets connecting with the main traffic arteries of the city to avoid congestion. Another point to be considered is that the pedestrian and street car approaches to the central station are segregated from the vehicular approaches which action also avoids congestion. That is, at the new station the vehicular approach to the station is separate from the passenger approach. They do not use the same entrances.

Study of population trends in Montreal shows quite clearly that the centre of population is moving east and north. Since the central terminal is north east of Bonaventure and Windsor street stations, a movement to a union station at the central station would be a move in the direction of the population trend. The centre of the hotel and retail sections of the city is closer to the central terminal than to Windsor street.

(4) *Development of Building Sites on the Station Area*

This is a factor of great economic importance in a long term view of a terminal development in a large city. A passenger station, to be of maximum use to the city, must be located near the centre of the retail and hotel sections, but the cost of an area of sufficient size for a railway terminal in such a location, and of approach tracks, will be very great unless the terminal is so designed that commercial buildings can be constructed over the railway facilities, by which means substantial ground rents for overhead rights can be developed. Windsor street station is not suited by location for such development, while the central station area is eminently suited for it.

(5) *Inadequacy of Windsor Street Station*

Windsor street station, while adequate for Canadian Pacific train service, is not large enough to accommodate all trains which enter and leave Montreal. The inadequacy of the station consists not only in the lack of capacity of the station tracks, but also in a lack of capacity of the approach tracks, coach yard and engine house facilities at Westmount, and express, baggage and mail facilities.

Owing to the side hill construction of Windsor street station, the enlargement of the track capacity would be a very expensive undertaking. To the south an expensive viaduct construction would be necessary; to the north it would be necessary to abandon Osborne street in its present location and reconstruct it further north, and this leads to complications in the Guy street and Mountain street subways. To obtain adequate capacity of approach tracks, another track at least would have to be constructed from the station as far as Westmount and two additional tracks from Westmount to Montreal West, at which point new and enlarged coach yard and engine house facilities would have to be constructed, the reason being that the Westmount facility cannot be enlarged. The additional lines to Westmount and Montreal West with the attendant grade separations would be expensive.

In addition, however, if Windsor street station is to be used, the question of an approach from the Victoria bridge has to be considered. This approach would, of necessity, take the form of an expensive high level viaduct running from St. Henri on a steep grade. Canadian National trains from the south and east could reach Windsor street station without such a viaduct. Trains from New York could be diverted at St. Johns, Que., on Canadian Pacific trackage and routed via the Lachine bridge and Montreal West, and trains from the Maritimes might be diverted over the Quebec bridge and thence over Canadian Pacific trackage on the north shore. Other Canadian National trains serving points south and east could be diverted at St. Lambert and sent around via the Lachine bridge; but all these expedients, while saving the expenditure of viaduct construction, would add from $6\frac{1}{2}$ to 22 miles on all such train movement, and would lengthen running times of trains as much as 45 minutes. Also, if the Maritime trains should be routed over the Quebec bridge, it would be necessary to supply substitute train service on the south shore of the St. Lawrence between Levis and Montreal, so that not only would there be slower and less adequate service, but operating costs for additional train mileage run would be very substantial and would be the equivalent of a large capital sum.

It is certain that more money would have to be expended on Windsor street station, including tracks, approaches, coach yard, engine facilities, express, baggage and mail facilities, to accommodate Canadian National trains, than the additional funds now required to be expended on the central terminal to accommodate Canadian National trains.

Mr. WALSH: You are making that statement on your own authority?

Mr. FAIRWEATHER: I am making it on the authority of a study that has been made of the situation.

Mr. WALSH: Yes, but there are other people who have made the same study and have come to a quite different conclusion.

Mr. FAIRWEATHER: My authority is the study I mentioned.

Mr. WALSH: I have their statement here.

The CHAIRMAN: Mr. Walsh, will you allow Mr. Fairweather to complete his statement, then we will come back to that afterwards. Go on, Mr. Fairweather.

Mr. WALSH: I did not want to get away from the point altogether.

The CHAIRMAN: No, but we will go back to it.

Mr. FAIRWEATHER: (continuing):

A consideration of these factors demonstrates that if a union station is to be provided for Montreal, the only logical location for it is at the central terminal site.

It is, however, by no means clearly established that a union station is a necessity for Montreal at the present time, and under present conditions, however desirable a union station may be as an ultimate objective in the development of the city. What is clearly established at the present time is that the Canadian National Railways and the city are both suffering from the disjointed nature of the Canadian National facilities, both freight and passenger, and from the existing stations and facilities, which are, for the most part, old and obsolete; also that there is in connection with the existing Canadian National facilities a serious grade separation problem. Sir Frederick Palmer clearly recognized this situation, and states in his report:—

“Whatever may be the ultimate decision in regard to the concentration of all Montreal main line passenger service at the tunnel station, there can be no two views about the desirability of, indeed the necessity for, grouping all C.N.R. trains at this place”

“It is absolutely necessary to provide suitable passenger station accommodation for the Canadian National Railways to replace the obsolete buildings now in use.”

“The tunnel site affords by far the best means of developing this necessity”

It is also an established fact that the Canadian National terminal plan is half completed along lines which solve the grade crossing problem, co-ordinate the Canadian National terminals, and conform to the requirement of being readily adaptable to a union station at the best possible site. In short, the best thing to be done is quite plainly to finish the half completed Canadian National terminal. This will co-ordinate the Canadian National terminals with benefit both to the railway and the city. The plan is excellently designed to serve the requirements of the Canadian National Railways and is readily adaptable to a union station. The expenditure of large sums of money on Windsor street station and approaches thereto is not a reasonable solution of the problem.

From an engineering standpoint, less money need be expended on the Canadian National plan to meet Canadian National requirements for co-ordination of its terminals than would be needed to effect only a partial co-ordination of Canadian National facilities based on Windsor street station.

From a traffic standpoint, there is no pressing necessity for a union station in Montreal, the interchange of passengers, mail, baggage and express between the existing Canadian National stations, as a group, and the Canadian Pacific stations, as a group, being of small proportions.

From a street traffic standpoint, the Montreal terminal development improves the north and south arteries of the city, segregating pedestrian from street car and vehicular approaches to the station, gives direct access to the retail and hotel sections of the city and provides an opportunity for commercial building over the terminal site. On the other hand, Windsor street station possesses none of these advantages and would add to street congestion.

From the standpoint of future requirements, the central terminal site is pre-eminently suited for a union station while Windsor street station could never properly be so designated.

The conclusion is inescapable, that the best interests of the Canadian National Railways and of the city would be served by the completion of the Montreal terminals on a modified plan to meet the present requirements of the Canadian National, and in such a manner that they could be readily adapted to use as a union station.

That is the end of it.

Mr. DEACHMAN: In your opinion would there be any material economy and efficiency in handling the freight in Montreal by the use of this terminal?

Mr. FAIRWEATHER: Oh, yes.

Mr. DEACHMAN: Could you give us an idea of any savings that would be possible, and what exactly the advantages would be?

Mr. FAIRWEATHER: I touched on that question in my memorandum; that our freight facilities in Montreal are cramped, and there is an opportunity for a very substantial improvement by re-arrangement. But we cannot begin to re-arrange your freight facilities until you get rid of your passenger facilities, because they are all mixed together; and consequently when you get rid of your passenger problem by terminal development it will enable you to turn your attention to the freight lay-out; and when you do that you are going to get economies that are really of a very substantial nature.

The CHAIRMAN: Mr. Deachman, before we go on with this discussion of this memorandum read by Mr. Fairweather I would like to finish first of all with the report of the Canadian National, and then we will go on with the discussion of the special report when we are through with that. Have you gentlemen any further remarks on the other part of the report, excepting the Montreal terminal?

Mr. WALSH: Yes. On page 4 of the report, the very opening figures, operating revenues and operating expenses; we notice a decrease of \$4,613,546.31 in the operating expenses of the railway; and it is suggested further down that this was carried out by holding such costs to a minimum. Now, there is a decline from \$16,154,886 in the operating revenue. Would the management consider that the decrease in operating revenues would in any way decrease operating costs? Is the fact that the operating costs are down due altogether to the fact that very careful business management was applied?

Mr. HUNGERFORD: Well, Mr. Walsh, reduction in traffic automatically reduces expenses to a certain degree, but the reduction from that point of view would not equal the total reduction that was effected, by a long long way.

Mr. WALSH: I see, but it would affect it to a certain extent?

Mr. HUNGERFORD: Quite.

Mr. WALSH: And further down you have suggested that 25 per cent of the reduction in maintenance and equipment forces, referred to at the bottom of

page 4, "subsequently and concurrently with the decline." Now, at the beginning of the paragraph, "operating revenues": "The decline in general business activity in the latter part of 1937 . . . continued throughout the latter part of 1938", and yet we did not get this 25 per cent reduction in the maintenance and equipment forces put into effect until well on in 1938—"subsequently and concurrently."

Mr. HUNGERFORD: That is quite true, Mr. Walsh. That was in pursuance of the policy that was decided upon to place a larger number of locomotives and cars in serviceable condition. That program was carried through the year 1937 and it was continued for the first three or four months of 1938.

Mr. WALSH: Then you have put into effect a 25 per cent decrease in 1938, but not soon enough to help out the situation as far as operating losses were concerned?

Mr. HUNGERFORD: As I said before, we were pursuing a program designed and intended to place more locomotives and cars in serviceable condition. That program was begun at the beginning of 1937, and during that period of time, on account of the restoration of the wage rate, the average wage was working up; that was one factor in getting the work done before the full restoration was in effect, and that would mean that we should get the work done at a slightly less cost. But over and above that it was that we did not have nearly as many cars and locomotives in serviceable condition as we should have had to take care of future requirements.

Mr. WALSH: You have now, is that right?

Mr. HUNGERFORD: Yes.

Mr. WALSH: And the paragraph at the top of page 5: "While maintenance and extensions have been kept to a minimum, the property and equipment is in good condition having regard to the volume of business to be handled". That is the volume of business at present, and what you might anticipate in the near future?

Mr. HUNGERFORD: As far as one can anticipate, that is the condition.

Mr. WALSH: Then, in connection with the hotels, there is an increase of \$25,927 in the operating income. If I remember rightly I filed a question that might have answered these things that I wanted to get; what was the average rate of return on hotel investments for this past year? Have you got that?

Mr. HUNGERFORD: I will see, Mr. Walsh.

Mr. FAIRWEATHER: We have here a tabulation, I think, Mr. Walsh, that answers your question.

Mr. WALSH: It is all there?

Mr. FAIRWEATHER: Yes.

Mr. WALSH: I can figure it out from that.

The CHAIRMAN: Just a moment, Mr. Walsh, do you want this read into the record? I think it would be advisable.

Mr. WALSH: I asked the question at the first meeting.

The CHAIRMAN: It might be as well to have it read into the record.

Mr. FAIRWEATHER: It is quite a long statement.

The CHAIRMAN: We will have it taken as read and it will be published in the record.

CANADIAN NATIONAL RAILWAYS
HOTEL OPERATION, YEAR ENDED DECEMBER 31, 1938

Hotel	Location	Capital cost to Dec. 31, 1938	Revenues	Expenses	Taxes	Net
		\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.
Chateau Laurier.....	Ottawa, Ont.....	8,673,307 68	1,158,537 84	927,958 88	62,285 45	168,293 51
Prince Arthur.....	Port Arthur, Ont.....	1,186,065 52	156,618 49	131,712 05	5,504 34	19,402 10
Minaki Lodge.....	Minaki, Ont.....	1,094,079 24	51,896 80	49,844 07	162 00	1,890 73
Fort Garry.....	Winnipeg, Man.....	2,906,934 58	346,474 81	338,583 13	26,305 18	18,413 60
Prince Edward.....	Brandon, Man.....	525,623 10	91,839 39	95,888 48	3,972 12	8,021 21
Macdonald.....	Edmonton, Alta.....	2,271,967 36	408,460 90	367,050 86	15,071 79	26,338 25
Jasper Park Lodge.....	Jasper Park, Alta.....	2,660,425 32	291,977 90	237,878 89	4,631 80	49,467 21
Bessborough.....	Saskatoon, Sask.....	3,567,459 62	224,206 88	246,970 60	1,692 87	24,466 69
Pictou Lodge.....	Pictou, N.S.....	199,456 21	17,382 88	16,746 86	305 00	331 02
Nova Scotia.....	Halifax, N.S.....	2,448,464 30	311,978 17	286,357 40	11,071 18	14,549 59
Canadian National.....	Charlottetown, P.E.I.....	857,579 45	85,299 94	85,029 82	3,637 48	3,367 36
	TOTAL.....	26,391,362 38	3,144,674 00	2,784,021 04	134,639 21	226,013 75

Mr. WALSH: That will be quite sufficient. Could I ask Mr. Fairweather or Mr. Hungerford whether the hotel operating expense figure includes any charges for depreciation?

Mr. COOPER: No, we do not include depreciation in our hotels accounts.

Hon. Mr. HOWE: What about depreciation, isn't included?

Mr. COOPER: Not in connection with hotels.

Mr. WALSH: What are you going to do when one of these million dollar hotels become obsolete, or is no longer fit for use; are you going to rebuild it?

Mr. COOPER: So far as furniture and fixtures, equipment of every kind, is concerned, it is replaced as required and generally is maintained in first class condition. That all comes under operating expenses. There is no provision for obsolescence of the building itself. That is, the ultimate retirement of the building itself is not being provided for. We are providing from year to year through the operating expenses of the hotels for all the depreciation which is taking place, apart from the building itself; and that is being kept in very good condition. I think anybody who looks at any of our Canadian National hotels would be fully convinced of that.

Mr. WALSH: I am not objecting.

Mr. COOPER: I do not think you could fail to be impressed by the first-class condition in which they are being kept.

Mr. WALSH: That is beside the point. We have the report here and it indicates quite clearly that there has been absolutely nothing set aside for depreciation on buildings, or for replacement of the buildings; and that is a condition which you would not find with respect to any other type of business. In business if they erect a building they immediately commence an account that will cover the cost of that building in due course. I know when we erect public buildings, schools for instance—where most of my experience has been—we are compelled by law to set aside each year a certain amount of money so that when the bonds become due we have the money to meet those bonds, and the presumption is the building itself is no longer of any use and we have then to float bonds to re-erect that building. Now, you have nothing of that character in your account.

Mr. DEACHMAN: They do not have it with respect to the railways either.

Mr. WALSH: That is quite a different matter.

Mr. DEACHMAN: The question of obsolescence comes up there. There is no difference. You are saying that the hotels are becoming out of date. The railways are subject to the same condition.

Mr. WALSH: No, the railways are replaced from year to year.

Mr. DEACHMAN: And just in the same way these hotels are kept up to date.

Mr. WALSH: No, they are not. Do not confuse me. You get the idea; this is a business question with me, it is not a matter of quibbling.

Hon. Mr. HOWE: Assuming its desirability, do you think it is good business for us to increase the deficit just for the sake of building up a fund within the railway to take care of this item?

Mr. WALSH: I think the railway itself should do that.

Hon. Mr. HOWE: The railway does not earn enough to do it.

Mr. WALSH: They should not report an operating revenue here of \$226,014 without taking this factor into account. It would not be done in any ordinary business. In any ordinary business institution that would not be done. When you report a net you should have it after everything has been looked after. Here is one important item that is not looked after, depreciation on buildings.

Hon. Mr. HOWE: Why report a net on that, it goes into the general fund of the railway to cut down the general deficit that has to be met by the public. I think that is a good way to use it, don't you? Why should we build up a fund within the railway accounts to take care of an item of that kind when the deficit has to be met out of public funds in any event, why not use it to make up the deficit?

Mr. WALSH: I have quite a different point of view of the matter, and my view is this: this is a railway proposition and it is presumed to be run as a business institution the same as any other line of business would be run; regardless of where this deficit comes from. I heard a very apt expression at a sitting of the Senate committee, possibly the minister himself was there at the time, but mention was made to "picking grandpa's pocket".

Hon. Mr. HOWE: I was not there at the time.

Mr. WALSH: Here is the Canadian National railway report and in that there is no allowance for depreciation on buildings, or for replacement of buildings; and the minister excuses it on the ground that well, it is as broad as it is long, because the public pay no matter which way we do it, you would have to get more money from the public if you put aside a certain amount for depreciation. And now, that is one side of the picture, but the other side of the picture is quite different. This is a business institution and we have no right to expect the public of Canada to dig down into their pockets again for future losses. We have no right to expect that.

Hon. Mr. HOWE: Do you propose to ask the public to dig down in their pockets to build new hotels?

Mr. WALSH: It is just as if the minister and I were in the hotel business. If we build a hotel and operate that hotel one of the first things we would do when we commenced operation would be to start that type of account so that when our hotel got old and delapidated we would have the money with which to replace it. I think that is common-sense business practice. I do not see why in the same way the Canadian National does not adopt a business proposition of that kind. It is common sense. If it did that it would not now say to the public we have a net operating income of \$226,000 in connection with our hotels, it would probably show a deficit. And it is not giving the public a true picture, to go back to an expression which I used two years ago; it is not giving them an exact picture of the losses which we are sustaining in operating the Canadian National railways and other companies connected directly or indirectly with that organization. For instance, if I own shares in a company and I get an operating statement at the end of the year I expect that statement to reflect the true conditions of that company which I am interested in. I am a shareholder of the Canadian National Railways, and I expect

that they will give me a true and exact picture of the actual conditions that exist at the present time. And I do not consider that this statement is an exact picture, because it does not look after one item that I consider of tremendous importance in the conduct of any business enterprise.

The CHAIRMAN: Mr. Walsh, you have been told by Mr. Cooper that the expenses connected with the replacement of furniture, as well as repairs to buildings, were chargeable to this account.

Mr. KINLEY: Is that true?

Mr. COOPER: Yes.

Hon. Mr. HOWE: The replacement of furniture, crockery, carpets and furnishings, repairs to buildings and everything of that kind are all charged against operations.

Mr. KINLEY: Do you carry any insurance on these hotels?

Hon. Mr. HOWE: No.

Mr. DEACHMAN: Would you mind telling me what is the custom in connection with the C.P.R. with regard to their hotels; you are both familiar with that?

Mr. COOPER: With regard to depreciation the Canadian Pacific practice has changed in the last three years. If Mr. Walsh had asked this question three years ago I could have said that our practice was precisely similar to that of the Canadian Pacific. The Canadian Pacific up to date have accumulated 5 per cent, that is the total accumulated depreciation which they have set aside with respect to depreciation on their hotels.

Mr. WALSH: Don't you think it was a wise move on their part to do that?

Mr. DEACHMAN: Would you consider that ample, Mr. Walsh?

Mr. WALSH: No, it is not ample. I want Mr. Cooper who is as good a financial authority with respect to railway matters as there is in the Dominion of Canada, to see if it is not possible to put the C.N.R. on the same businesslike basis in respect to all hotels. Now, let me ask him a question—it is beside the point—how do you handle steamships?

Mr. COOPER: We do not include depreciation in our railway steamships accounts.

Mr. WALSH: You do not?

Mr. COOPER: No, and the Canadian Pacific do. You made the remark that our statement in your opinion is not a correct presentation of the situation. I must point out to the committee that the balance sheet carries a certificate setting out clearly our practice with respect to depreciation. We say what is our policy with respect to depreciation accounting; and if that is set out clearly on the balance sheet then there can be no question of the statement being misleading.

Mr. WALSH: Does it state clearly that there is no depreciation at all either with respect to the steamships or the hotels?

Mr. COOPER: I think so, yes.

Mr. WALSH: Where is that?

Mr. COOPER: You will see it on the balance sheet.

The CHAIRMAN: We will come to that point when we consider that part of the report.

Shall we adjourn to meet again at 4 o'clock this afternoon?

Some Hon. MEMBERS: Agreed.

The committee adjourned at 1:05 o'clock p.m. to meet again at 4:00 o'clock p.m. this day.

AFTERNOON SESSION

On resuming at 4 p.m.

The CHAIRMAN: Gentlemen, when we adjourned this morning we were dealing with hotels. I think our friend Mr. Walsh was asking certain questions. Are you through with that? You made your statement in full this morning, did you? You tried to fill us up, but you did not succeed.

Mr. WALSH: I gave a full statement.

The CHAIRMAN: Are there any other questions on the report itself, excepting the Montreal terminal? Mr. Deachman, I thought you had a question to ask this morning?

Mr. DEACHMAN: I think I had. I have some on the freight business. Are we back at the terminals?

The CHAIRMAN: No. We will take the terminals afterwards. If you have any questions dealing with the report, please ask them now.

Mr. WALSH: I want to ask a question on page 5 in connection with the ss. *Prince Henry*. On page 5 I notice the loss on sale of the ss. *Prince Henry* applicable to the expired service life of the vessel charged to income in 1938 amounted to \$668,195; and then on page 18 there is another item of \$994,261 charged to proprietor's equity covering another portion of this loss. I am not a railway accountant, so I was wondering why part of the loss was charged to the one account and part to the other account. Could I have some kind of explanation that an ordinary mind could comprehend?

Mr. COOPER: Yes. It comes back to the question of depreciation accounting which we discussed this morning. The figure of \$668,000 represents the depreciation applicable to the period during which the ship was in service. In other words, had we been doing what you contend we should do—had we been accruing depreciation—this is the amount which would have been charged to operating expenses, on a depreciation basis, during the period the vessel was in service. Our practice is to provide for the loss at the time units of property are retired from service. Generally, we reach the same result as if we followed depreciation accounting. On the depreciation basis, the loss is amortized over the life of the property in more or less equal instalments. Under retirement accounting, the loss is all taken up at the time the property is retired. On the theory that had we followed depreciation accounting \$668,000 would have been charged to the steamship operating expenses; when the vessel was sold we took that amount up as an operating expense. The balance of the loss—which has nothing to do with the operation of the vessel; it is in consequence of a change in policy—in my opinion, is clearly a capital loss, and under the provisions of the Canadian National Revision Act, losses of that nature are required to be charged to proprietor's equity. I do not know whether that is a fair explanation or not. Have I made clear what the \$668,000 is?

Mr. WALSH: Yes. I can understand the \$668,000 would have been accumulated if you had been setting aside so much, year by year, when this vessel was in operation, from your income; you would have accrued that amount towards retiring it.

Mr. COOPER: We would have charged that amount to operating expenses.

Mr. WALSH: And the balance represents the difference between that and what you presume the life of the vessel would have been, or the balance of the cost of that vessel; is that it?

Mr. COOPER: It represents the loss which was accelerated when it was decided to sell the vessel in advance of the expiration of its normal life. This vessel, in the ordinary course of events, would probably have been in service for twenty-five years. Under the depreciation basis, allowing for salvage, we figure

about 3·6 per cent per annum would be the depreciation charge. It is only eight years since this boat was purchased, and eight times 3·6 per cent of the service value makes up \$668,000.

Mr. WALSH: What was the purchase price of the vessel? Would it be represented by the addition of those two figures, \$994,000 and \$668,000?

Mr. COOPER: No. The cost of the vessel was \$2,162,000 and we sold it for \$500,000.

Mr. WALSH: Oh, yes.

Mr. COOPER: We charged \$668,000 to expenses and the difference to proprietor's equity.

Mr. KINLEY: What is the age of the ship?

Mr. COOPER: It has been in service eight years.

Mr. KINLEY: Eight years?

Mr. COOPER: Yes.

Mr. KINLEY: There is another one, the *Prince William*, which I saw by the press was sold at a very small figure. What was that?

Mr. COOPER: That was a boat which was sold the previous year. It was not sold during 1938. It was a very small boat out on the Pacific coast. It was not the same type as the *Prince Henry*.

Mr. KINLEY: How big was she?

Mr. COOPER: I do not remember.

Mr. KINLEY: Was she 500 tons?

Mr. COOPER: I do not remember. It was a very small vessel.

Mr. WALSH: What are they doing with this vessel the *Prince Henry* now? What are the new owners doing with it? Are they operating it?

Mr. COOPER: They are operating it now, I think, between Miami and Nassau.

Mr. WALSH: As far as the C.N.R. is concerned, it was not profitable to keep that boat?

Mr. COOPER: No.

Mr. WALSH: It was better to take the loss and sell it at \$500,000?

Mr. COOPER: That was the decision of the management.

Mr. KINLEY: That is a matter of opinion.

Mr. HUNGERFORD: She will cruise through the West Indies during the winter, from Miami; and she will cruise down the gulf of St. Lawrence in the summer.

Mr. WALSH: She could not have been profitably operated?

Mr. HUNGERFORD: We thought not.

The CHAIRMAN: Is there anything else?

Mr. WALSH: I also notice on page 5 an item in connection with the cost of exchange. What is the reason for the increase of \$493,000 in the cost of exchange?

Mr. COOPER: Sterling was more expensive in 1938 than it was in 1937. In 1938 sterling averaged about \$4·96 to the £1.

Mr. DEACHMAN: What price?

Mr. COOPER: The average was 4·96. It varied from \$4·67 to \$5·02.

Mr. DEACHMAN: There is a difference in that to-day.

Mr. COOPER: Yes. It is below par to-day; but early in 1938 it was selling around \$5.

Mr. DEACHMAN: Yes.

Mr. COOPER: A large amount of our interest is payable, of course, in sterling; and it is rather expensive for us to find sterling funds to discharge our interest obligations.

Mr. DEACHMAN: What was the total cost of the Senneterre-Rouyn branch line?

The CHAIRMAN: \$5,000,000.

Mr. COOPER: It is shown on page 5 in the paragraph under capital expenditure account. The total cost as of December 31st was \$5,315,000.

Mr. DEACHMAN: Is that the entire cost of the road?

Mr. HUNGERFORD: No, not quite.

Mr. ARMSTRONG: \$220,000 will clear it up.

Mr. DEACHMAN: Is it a paying proposition?

Mr. HUNGERFORD: We think it will be.

Mr. KINLEY: Has he answered the question?

The CHAIRMAN: No; he is not through yet.

Mr. DEACHMAN: Yes, I am finished with that.

Mr. KINLEY: May I say with regard to these ships that are being sold from time to time, that I think it is a matter of importance to us who are on the coast. If you want to close a railway line, you have got to go to the railway commission and you have got to do all sorts of things. The public interest has to be considered. When you sell a ship, part of the assets of the railway, you consult nobody. There are fears in this country as to the effect of any such policy in regard to that in future.

The CHAIRMAN: If I recollect rightly, I think in 1935 the matter came up before the committee here, and we made a recommendation—on the recommendation of the staff of the C.N.R.—that this merchant marine be disposed of. I am under this impression that there was either an Act of parliament or an Order in Council which was passed directing that.

Mr. KINLEY: Certain ships in the merchant marine.

The CHAIRMAN: Yes, it was on Order in Council.

Mr. KINLEY: Do you mean to say there is a regulation—

Mr. SMART: This is not the merchant marine. The merchant marine is disposed of individually. This boat belongs to the C.N.R.

The CHAIRMAN: Mr. Kinley is asking if the disposal of the boat we have disposed of has been authorized by Order in Council.

Mr. SMART: Certainly; each one.

The CHAIRMAN: That is what I thought.

Mr. KINLEY: I want to bring this to the attention of the president of the railroad. The directorates are interlocked; that is, the railway and the boat directorates of the Canadian steamships are interlocking directorates. There is a question of enthusiasm, I suppose, in connection with the seagoing part of the effort. But down in the maritime provinces, in the past, a man in order to get a job had to go to sea. If we dispose of our merchant marine, what are our unemployed going to do? Because there is nothing that the men can do on the sea if we put all the boats into foreign hands. What are they going to do? There is nothing that they can do except go fishing or go on the sea. There was a time when Nova Scotia was a way out in the forefront in sea transportation. It is getting so now that there is nothing left but a few jobs on *Lady* boats.

Mr. COOPER: Of course, it was part of the arrangement that this vessel should be operated for cruises down the St. Lawrence every summer.

Mr. KINLEY: That is this *Prince* boat?

Mr. COOPER: Yes.

Mr. KINLEY: There is another *Prince* boat in Halifax not working at all. I understand there has been a proposition that that boat be put into commission in connection with the world's fair in New York.

Mr. HUNGERFORD: That is the *Prince David*.

Mr. KINLEY: I want to say that we are very much interested in the preservation of the seagoing people on the Atlantic coast. If you keep selling these boats, one of these days someone will get the notion of selling the *Lady* boats or something of that kind; and then as a seagoing people we will not be there at all. I saw in the *Financial Post* where the C.P.R., on one boat, had one Canadian. He was a ticket seller. The rest were all outsiders. Then they tell you that the young people of this country should be employed. I know that the president of the C.P.R. is interested in the unemployed and the young people, yet he runs a boat and does not hire any Canadians.

Mr. DEACHMAN: They cost too much.

Mr. KINLEY: How are people who live on shore going to work if they cannot go to sea? I do want to bring it to your attention that this is of vital interest to us who are on the shore.

Mr. DEACHMAN: It is a question of wages, is it not?

Mr. KINLEY: No; the boys on my shore will go to sea at any price. All they want is a start. They are not particular how much money they get, but they cannot get on at all.

Mr. HUNGERFORD: All the boats in the West Indian service are in regular use; but so far as the *Prince David* being tied up at Halifax is concerned, we have not been able to find an opportunity to use her profitably.

Mr. HANSON: Are not the employees on these boats mostly all Canadians?

Mr. HUNGERFORD: Mostly all Canadians.

Mr. McKINNON: What would be the purpose of hiring somebody that was not a Canadian?

Mr. KINLEY: There is an agreement.

Mr. HUNGERFORD: I do not know whether it is a condition of the agreement, but we do employ some West Indians in the stewards' department. The regular crews are practically all Canadians.

Mr. DEACHMAN: There is a question I should like to ask, but I do not know whether it would be out of order, and that is in regard to maintenance of way and structures and maintenance of equipment. Would it be possible to have the operating ratios of these two items since the beginning of the depression in 1929?

Mr. ARMSTRONG: We could file a statement.

Mr. HUNGERFORD: I think we would have to file a statement on that.

Mr. DEACHMAN: Yes. My recollection of these ratios is that they are much higher on the C.N.R. than they are on the C.P.R.

Mr. HUNGERFORD: That comes into the old question of book-keeping.

Mr. DEACHMAN: It may be a question of book-keeping, sir, but it is also a question of cost. The money is there; it is spent.

Mr. HUNGERFORD: Yes, to a degree. It depends upon the requirements of the two systems and the policy in respect to maintenance at any given time.

Mr. DEACHMAN: In connection with the maintenance of way and structures, is that maintained to a higher standard than on the C.P.R.?

Mr. HUNGERFORD: I would not say that, because I do not know Canadian Pacific conditions.

Mr. DEACHMAN: Pardon?

Mr. HUNGERFORD: I do not know the conditions on the Canadian Pacific and I could not say that.

Mr. DEACHMAN: Would the comparative figures for the Canadian Pacific be available?

Mr. HUNGERFORD: I do not know that.

The CHAIRMAN: We have no means of forcing them in this committee to give any figures.

Mr. DEACHMAN: The figures are published.

Mr. SMART: They are not published in detail like the Canadian National Railway figures.

Mr. DEACHMAN: After all, we are interested in both railroads in Canada. Would it not be possible to have a comparative statement of the operations of the two roads? It would act more or less as a yard stick. You have it recorded, I think, in the Parker report, which some gentlemen will recall.

Mr. FAIRWEATHER: The figures are compiled and are published by the Dominion Bureau of Statistics, the figures with regard to the Canadian Pacific and the Canadian National. But one has to be very careful about making comparisons between the two systems because there are great differences between them and the raw figures do not tell the whole story.

Mr. DEACHMAN: You have a larger percentage of light traffic lines, have you not?

Mr. FAIRWEATHER: Yes.

Mr. DEACHMAN: And therefore on that basis alone——

Mr. FAIRWEATHER: That would mean that the operating ratio chargeable to maintenance of way and structures on the Canadian National would be higher than on the Canadian Pacific.

Mr. DEACHMAN: If you are measuring it, though, in dollars per mile of line it would not be?

Mr. FAIRWEATHER: Well, there again if you measure it in dollars per mile of line you have to take other things into consideration. Take, for instance, the fact that the Canadian Pacific Railway is an older railway on the average than the Canadian National and the physical structure of their property as expressed in rails, ties and ballast and steel bridges is on a higher plane than many of the lines of the Canadian National.

Mr. DEACHMAN: Is that not the main basis of the difference between the two?

Mr. FAIRWEATHER: The two combined constitute the main difference.

Mr. DEACHMAN: The maintenance ratio on the C.P.R. prior to the time of the amalgamation of the three roads was higher and, therefore, you had more deferred maintenance to make up?

Mr. FAIRWEATHER: It is quite obvious that the Canadian National lines that go to make up the Canadian National had been bled white before they came into the hands of the government. Naturally, all of that maintenance appears in the subsequent years and it inflates the maintenance expenses of the Canadian National lines, and it is an enormous sum of money.

Mr. DEACHMAN: Is there anything to this: In connection with the two railways the maintenance of way and structures per mile of line during the period of prosperity, say, from 1925 to 1930, was running along pretty closely; it was approximately the same for each road? And when the crisis came and business fell off the C.P.R. cut its ratio very much more quickly and more deeply than did the C.N.R.

Mr. FAIRWEATHER: Well, I would not want to be lead into a detailed statement of what the Canadian Pacific did to meet the emergencies of the depression.

I do know that in the period from 1918 up to 1929 the Canadian National Railways were spending large sums of money over a period of years to lift the maintenance standard of its property which had been allowed to deteriorate in the prior period. And that program was interrupted by the depression. From that time onward the maintenance of the property has been kept to a minimum consistent with safe operation. As to what the Canadian Pacific did in detail, I would not be a competent witness.

Mr. DEACHMAN: The figures record that attitude. But there is another frank question with regard to that; the fact that the C.N.R. ratio was not cut so deeply as the C.P.R. Was that a part of the government policy to maintain employment or was it really the policy of the Canadian National?

Mr. HUNGERFORD: I will answer that. In general it was the policy of the Canadian National Railways. We tried to balance maintenance to the requirements of the time. It is quite true that the lines of the Canadian National were greatly improved between 1918 and 1930, but in my judgment at 1930 they were not up to the full standard of the permanent lines of the Canadian Pacific at that time. Since then we have kept the maintenance as low as we could consistent with traffic requirements. That is always a matter of judgment, of course.

Mr. DEACHMAN: But because of deficiency in past times that ratio had to be carried at a higher rate relatively than the C.P.R.?

Mr. HUNGERFORD: Naturally, yes.

Mr. DEACHMAN: During the depression?

Mr. HUNGERFORD: Yes.

Mr. DEACHMAN: Does that same thing apply to the maintenance of equipment?

Mr. HUNGERFORD: To a degree. It is not quite the same.

Mr. WALSH: I should like to ask a question concerning the cash deficit on page 5. It says, "excepting charges to proprietor's equity under the provisions of the Canadian National Railways Capital Revision Act, 1937, as outlined on page 12, there was a deficit of \$54,314,196." Just what is the reference there?

Mr. COOPER: Page 12, did you say?

Mr. WALSH: Page 5 under "Cash deficit."

The CHAIRMAN: The third paragraph.

Mr. COOPER: May I refer you for a minute to page 12?

Mr. WALSH: Yes.

Mr. COOPER: The statement shows the profit and loss account for the year 1938 which is separated between line abandonments charged to proprietor's equity and the cash deficit. The system loss for the year of \$57,027,033.11 is divided, between the amount we require in cash from the government and losses of a capital nature chargeable to proprietor's equity. The reference on page 5—

Mr. WALSH: —is to that \$2,000,000?

Mr. COOPER: That is the amount which is excluded in arriving at the cash deficit.

Mr. WALSH: It represents line abandonments?

Mr. COOPER: Line abandonments including the capital loss in connection with the Prince Henry.

The CHAIRMAN: Which you will find on page 1 of the Canadian National Railways Securities Trust.

Mr. COOPER: The details are given on page 18, Mr. Walsh, if you want the details.

Mr. HOWDEN: I was going to direct attention for a moment to page 7 in connection with the abandonment of branch lines. I notice that six out of ten

are in Manitoba, and that of the six branch lines approximately 186 miles of C.N.R. track are abandoned to some 78 miles of C.P.R. track. Is it desirable, from the standpoint of the Canadian National Railways, to abandon this mileage, or why do we always seem to be getting a little the worst of it as compared with the C.P.R. in the carrying of mail and in the abandonment of track? It does seem that they are putting it over us a little bit. From the standpoint of Manitoba we are having 186 miles of lines abandoned as against some 74 all over the rest of the railway for the time being, I presume. I am from Manitoba, and I am curious to know if it is to the benefit of the railway to have all this mileage abandoned? I should like a little explanation of that.

Hon. Mr. HOWE: It is definitely an instruction of parliament.

Mr. HOWDEN: Why do we get the worst of it?

Hon. Mr. HOWE: They just happened to be working in your territory. They took up 35 miles of track in my territory. This is all co-operative planning. It is where two railroads are close to each other and when one can serve the territory they take up the other one.

Mr. YOUNG: Is that co-operation not like the horse and the rabbit?

Hon. Mr. HOWE: Considering all the disturbance up and down the country and that they have saved less than \$2,000,000 a year for both railways, I think if they had been allowed to run and had attended to problems within the railroads with the energy with which they have been worrying about this co-operation both railroads would be much further ahead to-day.

Mr. WALSH: I like the happy way in which the Minister of Transport suggests the saving of a mere \$2,000,000.

Hon. Mr. HOWE: It is not so much when you are playing with a gross income of \$350,000,000.

Mr. HOWDEN: I should like to be clear on these two points, Mr. Chairman. To begin with, am I to understand that only such portions of lines are abandoned by one railway as are supplied by the other railway?

Mr. KINLEY: By the same railway.

Mr. HOWDEN: No, the same railway would not have two branch lines running in the same district.

Mr. KINLEY: It might.

Mr. HOWDEN: They don't usually.

Mr. McKINNON: All this is subject to the approval of the Board of Transport Commissioners, of course?

The CHAIRMAN: Yes.

Mr. HOWDEN: I should like to be informed if it is an understood fact that branches of this kind are only being abandoned when that district has some other means of supply. That is the first point I should like to have clearly fixed, and the other is that they are actually being abandoned because they are really uneconomic.

Mr. FAIRWEATHER: Answering those two questions: These lines are what the railways classify as functionally duplicate.

Mr. HOWDEN: I see.

Mr. FAIRWEATHER: That is, there will be two lines in the same territory and they will be near enough together so that in the judgment of the railway company the services of one of them is ample for all requirements.

Answering the second question: They may or may not be profitable in themselves. The railway may be paying its operating expenses and still be functionally duplicate and capable of producing a railway economy if it were abandoned. It is not necessary that the railway be losing money before it be classed as a functionally duplicate line. There are two tests; the first is, is the

remaining line of the two capable of reasonably fulfilling the transportation requirements as the railways see it; the second is, would there be an economy by abandoning one of those lines. Those are the two tests. Now, of course, the ultimate decision as to whether or not convenience and necessity can be properly handled by one railway is not in the hands of the railways themselves, it is in the hands of the Board of Transport Commissioners. And each one of these proposed line abandonments is in process of being submitted to the Board of Transport Commissioners for examination and approval or disapproval.

Now, with regard to the further point as to whether or not there are more Canadian National than Canadian Pacific lines in that particular list, it just so happens that in this year's work it fell out that way; generally speaking these functionally duplicate lines will average out when you take Canada as a whole, they will average out about fifty-fifty.

Mr. YOUNG: That is not my recollection of the last few years.

Mr. FAIRWEATHER: I said they would generally work out that way. I do not think there is any evidence that the Canadian National Railway has agreed to the abandonment of more functionally duplicate lines than the Canadian Pacific.

Mr. YOUNG: What is the total mileage so far abandoned by both roads?

Mr. FAIRWEATHER: It is a small amount, I think it is about 80 miles altogether that has been actually abandoned under the Canadian National-Canadian Pacific Act.

Mr. HOWDEN: There is 186 miles here in Manitoba alone.

Mr. FAIRWEATHER: Quite right.

The CHAIRMAN: That is proposed.

Mr. FAIRWEATHER: If you had the Saskatchewan figures you would see a preponderance of Canadian Pacific mileage in Saskatchewan.

Mr. KINLEY: Has the railway commission given any decision yet on the closing of the line from Middleton to Bridgetown?

Mr. FAIRWEATHER: Yes.

Mr. KINLEY: They have decided?

Mr. FAIRWEATHER: Yes, they have allowed it to be abandoned.

Mr. KINLEY: The whole of it, from Victoria Beach to Bridgetown and from Bridgetown to Middleton?

Mr. FAIRWEATHER: Right to Middleton, except that railway facilities in Bridgetown will be served by a spur from the Dominion Atlantic railway.

Mr. KINLEY: That is, the whole line is to be abandoned.

Mr. FAIRWEATHER: Yes, but at Bridgetown there will be a spur built.

Mr. BARBER: Right below that it refers to the 637 miles previously approved for abandonment; that 637 miles has not been abandoned yet?

Mr. FAIRWEATHER: No, they have not been abandoned yet. There is a small line from Linwood to Listowel in Ontario, and there is this Middleton-Bridgetown line that we have received the approval of the Board of Transport Commissioners very recently to abandon. Neither of these abandonments has been consummated yet. The actual lines that have been abandoned under the Act consist of the line from Saint John to Farnham in Quebec and from Cyr junction to Edmundston in New Brunswick. The balance of the lines are in process of preparing the necessary data for submission to the Board of Transport Commissioners, to find out whether or not they will permit abandonment to be proceeded with.

Mr. BARBER: I notice the next item, the Vancouver hotel. Would Mr. Fairweather make an enlarged statement as to what arrangements have been

made with the C.P.R. with respect to the abandonment of the C.P.R. hotel, what obligations have been assumed?

Mr. FAIRWEATHER: There was an agreement prepared between the Canadian National and the Canadian Pacific railways under which the Canadian Pacific Railway undertook to close its hotel in Vancouver as a hotel, and at the time when the Canadian National hotel is completed. When the Canadian National hotel is completed it is to be opened on behalf of both railway companies under joint arrangement.

Mr. BARBER: What about the property, does not the Canadian National assume some obligations in regard to the abandoned property?

Mr. FAIRWEATHER: The property which is abandoned, the hotel property—the Canadian National has a beneficial interest in that; in this way the property is to be disposed of or valued; if it is not disposed of in the first three years—and I may say that when it is disposed of it cannot be used for a hotel—but if disposed of in the first three years the Canadian National Railway participates in the price which is paid for the hotel. In the meantime, and as long as the abandoned hotel is kept in the proprietorship of the Canadian Pacific the Canadian National shares in the cost of keeping a watchman there and the cost of taxes.

Mr. BARBER: What would that amount to a year?

Mr. FAIRWEATHER: I would have to refresh my mind on that. Then, the agreement provides that if the hotel has not been sold in the first three years it will have to be demolished; that is, it could not be kept there idle. And then, if the property has not been disposed of, I think within seven years, there is a provision in the agreement that the value of the land shall be arbitrated and the Canadian National Railway will receive compensation as part of the general agreement. That compensation takes the form of interest upon a portion of the arbitrated value which will accrue to the benefit of the Canadian National throughout the whole period of the lease of the Canadian National hotel to the new operating company.

Mr. BARBER: If the hotel is demolished there will be a certain loss to the property; do the Canadian National assume a portion of that loss?

Mr. FAIRWEATHER: No.

Mr. BARBER: The C.P.R. assume the whole thing?

Mr. FAIRWEATHER: They assume the whole of that. The benefit that accrues to the Canadian National is the interest on the sales price of the property or the interest upon the arbitrated price of the property for the whole period of the lease; and, of course, that means, as I have already said, that as long as the proprietorship stays with the Canadian Pacific up to the limit of seven years the Canadian National has to participate in the cost of taxes and of a watchman and services of that kind.

Mr. KINLEY: How do you divide the operating deficits? Is it fifty-fifty?

Mr. FAIRWEATHER: If there is an operating deficit on the hotel company it will be divided fifty-fifty.

Mr. HOWDEN: Is it proposed to rent this or to hold it for sale?

Mr. FAIRWEATHER: During the period of the first three years it is within the general discretion of the Canadian National and the Canadian Pacific as to whether it is rented or sold, or what is done with it; but if something is not done with it in the three-year period that is satisfactory to the Canadian National, then it has to be demolished in order to save taxes.

Mr. BARBER: It cannot be used as a hotel?

Mr. FAIRWEATHER: No, neither can it be leased or sold to be used as a hotel site.

Mr. HUNGERFORD: It cannot be used as a hotel under any condition.

Mr. BARBER: Will the profits of the new hotel be divided fifty-fifty?

Mr. FAIRWEATHER: No. On any profits of the new hotel the first charge is interest upon an agreed valuation on the hotel property, and that goes three-quarters to the Canadian National railways.

Mr. HOWDEN: What is the agreed valuation?

Mr. FAIRWEATHER: It provides for interest up to \$280,000 a year. If you capitalize that you will get the value of the hotel, which is \$7,000,000 at 4 per cent. So that the first charge on the hotel profits is 4 per cent on an agreed valuation of the hotel, and anything over that is divided on a dividend basis between the Canadian National and the Canadian Pacific railways on a fifty-fifty basis. In order to round the thing out and prevent any misunderstanding; one-quarter of this rental goes to the Canadian Pacific railway and three-quarters of it goes to the Canadian National.

Mr. HUNGERFORD: I think you might put it this way; up to a minimum of \$280,000 a year, which represents interest on an agreed value for the purpose of the building, the Canadian National Railway gets three-quarters and the Canadian Pacific Railway gets one-quarter.

Mr. YOUNG: What is the investment of the Canadian Pacific in the new hotel?

Mr. FAIRWEATHER: They have no investment in it. Their interest consists of getting out of the old hotel and ceasing the competition and the loss that occurs to them. There are some other details of the agreement. For instance, there is the transfer of certain furniture from the Canadian Pacific to the Canadian National free, for use in the new hotel.

Mr. YOUNG: Did they have a profit on the operation of the present hotel?

Mr. FAIRWEATHER: Well, they had some profit, yes.

Mr. YOUNG: How much?

Mr. FAIRWEATHER: I do not know that it would be possible for me to disclose those figures. I haven't got them in detail anyway.

Mr. HOWDEN: Not very much.

Mr. FAIRWEATHER: I do not think in later years it amounted to a very great amount.

Mr. YOUNG: Would it amount to one-quarter of \$280,000?

Mr. FAIRWEATHER: I really would not want to say.

Mr. YOUNG: I think we ought to know something about that. If their profits are not as great as that, if they are not getting more profits from the operation of this hotel with no competition whatever—

Mr. FAIRWEATHER: Of course, from the Canadian Pacific standpoint they are getting out of the hotel operation which they have had there for a great many years, an established hotel.

Mr. YOUNG: But if they were not making profits out of it would not it be much better for them to abandon the hotel?

Hon. Mr. HOWE: There are two sides to it. The only chance of making any hotel profitable was to get all the first-class patronage of Vancouver and we had to consider whether we would do that when we opened our hotel, or take a loss which would have been inevitable. I think against an established business such as the Canadian Pacific Railway had.

Mr. YOUNG: Will this hotel be in operation during the next three years?

Mr. FAIRWEATHER: You mean, the new hotel?

Mr. YOUNG: The old hotel. Will it be operated? I am not talking about it as a hotel, but will that property be operated by anybody in the next three years?

Mr. HUNGERFORD: It may be, Dr. Young, if we can find a useful purpose for it.

Mr. YOUNG: Will it not be operated by the Canadian Pacific?

Mr. HUNGERFORD: No, it is a joint operation between the two companies.

Mr. YOUNG: Is it a fact that a laundry will be operated now on that territory?

Mr. HUNGERFORD: No.

Mr. YOUNG: That will not be operated?

Mr. HUNGERFORD: No; the laundry work has been transferred to the new hotel, and the new hotel company has made a contract with the Canadian Pacific and is making one with the Canadian National to do the laundry work for both the railways and the steamships in addition to the hotel work itself.

Mr. HOWDEN: There was an anticipation that the building might be useful for office purposes?

Mr. HUNGERFORD: That has been one suggestion. Disposition of the building is not very clear at the present time; it is one of the things that we have to consider.

Mr. YOUNG: What are the annual taxes on the old hotel?

Mr. HUNGERFORD: It seems to have varied from year to year; perhaps we have it.

Mr. FAIRWEATHER: I would not care to answer offhand as to what the taxes were.

Mr. YOUNG: Can you have it for the next time we meet?

Mr. FAIRWEATHER: I have a figure in my head but I should like to confirm it.

Mr. EMMERSON: Reverting back to page 5, to the capital expenditure account, I see you list different items such as "rolling stock purchased or built" and so on. Could we have a break-down as to what was purchased by the Canadian National Railways and what was built by them?

Mr. ARMSTRONG: During the year 1938 there were constructed in the Transcona shops 25 sand cars and 13 snowplows; the balance of the equipment was all constructed at various car and locomotive manufacturing plants.

Mr. EMMERSON: Private concerns?

Mr. ARMSTRONG: By private concerns.

Mr. EMMERSON: Then the total construction by the C.N.R. in their own shops was 25 sand cars and 13 snowplows?

Mr. ARMSTRONG: That is correct.

Mr. MCKINNON: If we can revert to the Montreal terminal, I should like to ask Mr. Fairweather a few questions.

The CHAIRMAN: I should like to finish the report, if you do not mind, and then we can return to the Montreal terminal. Are there any other questions on any other sections of the report?

Mr. WALSH: I want to find out about unemployment relief money. How much did the Canadian National Railways receive from the government under that item on page 6 "unemployment relief expenditures?" Is there any way of finding out exactly how much was advanced under that paragraph?

Hon. Mr. HOWE: I think we have that here, yes. Up to March 31, the amount paid or due or payable by the government was \$148,876. That is, excluding the Montreal terminals.

Mr. WALSH: Yes, outside the Montreal terminals.

Hon. Mr. HOWE: \$148,876.51; and commitments, \$109,911.51.

Mr. WALSH: This was not an item that was expended as items in previous years on the joint program of railway expenditures?

Hon. Mr. HOWE: No, we put in an item there for assistance to railway projects, part of the program to stimulate building, limited to the direct labour content only.

Mr. WALSH: Then, coming to this city that is known as Saskatoon, what was the cost of the new station at Saskatoon which is referred to on page 6 under that same item, "unemployment relief expenditures"? What is the total cost of that?

Hon. Mr. HOWE: About \$300,000, I believe.

Mr. WALSH: Of that amount how much was contributed by the dominion government from the unemployment relief fund?

Hon. Mr. HOWE: \$79,078.61 as of March 31st.

Mr. WALSH: Was this program part of the program that was discussed at the last session of parliament?

Hon. Mr. HOWE: Yes.

Mr. WALSH: Was the program slow to develop?

Hon. Mr. HOWE: Not the program discussed last year. I may say that the Saskatoon station is very much in the same position as the Vancouver hotel and the Montreal terminals, a project half built and shut down.

Mr. WALSH: When was it begun?

Hon. Mr. HOWE: 1929.

Mr. HUNGERFORD: I think 1928 or 1929.

Mr. SMART: 1928.

Mr. WALSH: When did they stop work on it?

Mr. SMART: In 1931 or 1932.

Mr. HUNGERFORD: Saskatoon?

Mr. SMART: Yes.

Mr. HUNGERFORD: I think we only worked two years on it, part of one season and part of another.

Mr. SMART: 1930?

Mr. WALSH: What time?

Mr. SMART: 1930 or 1931.

Mr. WALSH: Was there any particular reason for stopping the work at that time?

Hon. Mr. HOWE: Lack of funds.

Mr. HUNGERFORD: The depression, that is all.

Mr. WALSH: They needed a station at Saskatoon, I should think, and if they decided to build a station I should think they would go ahead and complete it.

Mr. YOUNG: A mistake was made in that particular case, just the same as I say a mistake was made with regard to the Montreal terminals. At that time they should have been providing work instead of stopping work, in 1930 and 1931.

Mr. WALSH: Has there been any increase in the passenger service or freight service business in Saskatoon to warrant the completion of the station, or is it just taking advantage of the opportunity of getting relief money expended in Saskatoon? I am not in any way opposing the building of this station because I do not know the conditions; I have never been to Saskatoon, but I know it was started and then stopped and now it is started again, and I am just trying to look for information.

Mr. HUNGERFORD: That work was first started and the track layout and platform were completed. The station building itself was not. The present work contemplates the erection of the station itself. The old station is very unsatisfactory for the accommodation of the public; space is inadequate and very badly arranged, and the new station will provide better facilities for the public. We have substantially the same number of trains operating there although it is possible that the total volume of passenger travel would not be quite as great as it was in former years, but it fluctuates from time to time.

Mr. BARBER: I should like to ask a question with regard to pensions on page 6. Do the pensioners depend on the revenues of the company, or has there been a fund built up sufficient to take care of it?

Mr. FAIRWEATHER: Are you speaking of the Social Security Act of the United States or are you speaking of pensions in Canada?

Mr. BARBER: Canada.

Mr. FAIRWEATHER: There are three funds in Canada for Canadian National pensioners. They are all contributory and the employees contribute a portion of their pay to the funds. In all three plans the Canadian National Railways also contributes to the cost of pensions.

Mr. BARBER: Will a fund be built up sufficient to take care of them, or will they have to depend on additional money?

Mr. FAIRWEATHER: Well, the answer to that question is this: you have to understand that the company's contribution, the company's portion of the cost is paid as it is required. The employee's portion of the cost is paid while the employee is working. Consequently the answer is with regard to the portion of the expense which is paid for by the employee a fund is being built up. With regard to the portion of the pension which is paid for by the company, that is charged into operating expenses as it is required.

Mr. YOUNG: What portion is paid by the employees?

Mr. FAIRWEATHER: Well, of course, that is a very difficult question to answer. I think originally the funds were intended to be divided fifty-fifty; that is, the Intercolonial and P.E.I. Provident Fund and the Grand Trunk superannuation fund, and I think the intention was they would be fifty-fifty, but it has not worked out that way and the company is bearing more than 50 per cent of the cost.

Mr. YOUNG: How much more?

Mr. FAIRWEATHER: Well, I would hesitate to say how much more.

Mr. YOUNG: Is it substantial or not; how much more?

Mr. FAIRWEATHER: You can see, under the provident fund itself, under the I.C.R. and P.E.I. provident fund the company is contributing a great deal more than the amount. I would say the company down there is contributing about \$1,400,000 and the employees are contributing about \$200,000 at the present time.

Mr. EMMERSON: That amount will be reduced as time goes on?

Mr. FAIRWEATHER: That fund is closed. There can be no new members to that fund. Now, with regard to the Grand Trunk fund, the contributions of the employees are again smaller in latter years than the contributions by the company. That is the old fund is a relatively small fund; it is closed. I think at

the present time there are 142 pensioners and I think less than 150 contributing members, a very small fund. The Grand Trunk fund, and then, of course, our general pension plan was put on a contributory basis in 1935. Prior to that time it was on a non-contributory basis, borne entirely at the cost of the company. In 1935 it was placed on a contributory basis.

Mr. YOUNG: Fifty-fifty?

Mr. FAIRWEATHER: No, I would not say fifty-fifty.

Mr. VIEN: Is there a fixed percentage of the wage paid by the employee?

Mr. FAIRWEATHER: It depends. In the I.C.R. and P.E.I. fund it was based on $1\frac{1}{2}$ per cent. In the Grand Trunk superannuation fund it is fixed at $2\frac{1}{2}$ per cent. In the Canadian National fund it is a variable amount, elected by the employee himself, and may be any whole integral per cent from 1 up to 5 per cent so far as the company matching is concerned; then, if the employee desires to contribute more, he can contribute up to 10 per cent of his salary, but the company won't match beyond 5 per cent.

Mr. VIEN: There are various benefits, I suppose, under these various plans?

Mr. FAIRWEATHER: In the I.C.R. and the P.E.I. fund the only benefit that you get is your pension during your lifetime after you retire, and that is calculated on $1\frac{1}{2}$ per cent of your average pay for the last 8 years multiplied by the number of years of service. In the Grand Trunk superannuation fund the benefit is also in the form of a pension and is calculated at the rate of one-sixtieth of the man's average pay for the best ten years. In the case of the Canadian National general fund, the benefits are in the form of a pension which one may get either in the form of an annuity on his own life or a joint and survivor annuity with himself and his wife at a lower rate, or a guaranteed annuity for a stipulated period of time.

Mr. HUNGERFORD: At a lower rate.

Mr. FAIRWEATHER: Also at a lower rate. Those are all figured out on an actuarial basis, so that the case is the same as if he had taken out a simple annuity. In the case of death before pension or leaving the service before retiring, there is provision for a refund of the contributions that the employee makes.

Mr. MAYBANK: With or without interest?

Mr. FAIRWEATHER: In the case of the Canadian National main plan, it is with interest; in the case of the I.C.R. and the P.E.I. and of the Grand Trunk superannuation fund, I believe it is without.

Mr. YOUNG: What is the rate of interest?

Mr. FAIRWEATHER: The rate of interest in the general fund is the rate of interest which is fixed at three-year intervals by the board of directors, but it cannot be lower than the average yield of dominion government bonds of, I think, a 20-year maturity. The present rate of interest is $3\frac{2}{3}$ per cent.

Mr. WALSH: Is there a retiring age?

Mr. FAIRWEATHER: Yes. There is compulsory retirement at age 65, and there is provision for retirement at age 60, with twenty years service, if totally incapacitated.

Mr. WALSH: There is no minimum retiring amount?

Mr. FAIRWEATHER: Yes, there is a minimum retiring amount of \$300 a year, in the general fund.

Mr. WALSH: One case was drawn to my attention which I think was rather deplorable. One of your parlor car men conductors was retired at the age of 65, just recently, at \$29 a month. No man can live on \$29 a month.

Mr. CAMERON: How many years' service had he?

Mr. WALSH: Thirty-five years' service.

Mr. FAIRWEATHER: After all, the pensions costs, under the non-contributory plan of the Canadian National, were mounting at a very high rate and something had to be done about it. They were put on a contributory basis. I suspect from what you say that this man did not elect to contribute to our fund; and the result is that what he got is what is called the service pension. That is, he only got his pension which had accrued to him up to the date of the change-over. If he had elected to contribute to the fund, his pension would have been larger.

Mr. WALSH: When they contribute to the fund, you suggest that it is on a certain percentage basis of their salaries. There are certain of your employees who are very poorly paid, as far as salary is concerned?

Mr. FAIRWEATHER: Yes.

Mr. WALSH: And they depend, for their income, chiefly on tips and gratuities of that nature?

Mr. FAIRWEATHER: Yes.

Mr. WALSH: Their retiring allowance then is very small, if it is computed only on their salaries.

Mr. MAYBANK: There is a minimum, is there?

Mr. FAIRWEATHER: There is a minimum. I want to say that in designing the Canadian National's pension plan, this point that you are raising, Mr. Walsh, was given very careful consideration. It was recognized that when you put a contributory pension plan into effect at a fixed rate of interest which is high enough to pay half of the cost of the pension, it becomes a real burden on the lower wage earner; he really cannot pay it. The result is that this plan of the Canadian National will give a minimum pension of \$300 a year to a man without his contributing. He does not have to contribute to get \$300 a year, \$25 a month. That is a sort of back log for him. If his financial conditions are such that he cannot contribute, that is his pension. If he, however, finds it possible to contribute, then he will increase his pension. I think myself that it is a very good arrangement. That is, the person who cannot afford—

Mr. DEACHMAN: That would be an Aberhart pension?

Mr. FAIRWEATHER: No, hardly that; because a man has to give service. In order to qualify, he has to give twenty years of loyal and faithful service to the company.

Mr. VIEN: Mr. Chairman, I would suggest that if the charge or the rate varies from $1\frac{1}{2}$ per cent to 5 per cent, and they have various benefits under different plans, based on an actuarial basis, there is not much ground for complaint that I can see. An employee who cannot pay or contribute $1\frac{1}{2}$ per cent of his salary is rather rare. It goes up to even 5 per cent. Take a man who earns \$1,000 a year, who has to pay 5 per cent on that, \$50; it will amount to a little over \$4 a month. It does not appear to me that it is very exacting for that employee to have to contribute \$4 or \$5 a month so as to be able to increase his pension when he is superannuated. Therefore, while I, like Mr. Walsh, pity the fate of the man who is retired at 65 years of age, and who finds himself only with the minimum of \$300 a year, we have also to consider that he had other options open to him—that of paying $1\frac{1}{2}$ per cent or that of paying more up to 5 per cent, which is the maximum. I suppose 5 per cent is about the maximum to be deducted?

Mr. MAYBANK: It is the maximum.

Mr. VIEN: It is?

Mr. MAYBANK: Yes.

Mr. VIEN: A maximum contribution of 5 per cent on the wages of a railway employee is not an unreasonable one. As a matter of fact, it is the one

that is being charged to all civil servants in the civil service of Canada. Therefore, I think one has to keep in mind that if the pension is small for the man who did not contribute, it is because he did not exercise the options that were open to him; and if it is already costing the railway services a million or more a year for the pensions which were in the fund, adding to those pensions without contributions from the railway employees would mean a heavier load on the railway company and a heavier deficit at the end of the year.

Mr. BARBER: I notice they cost the company \$4,159,798, an increase over the amount in 1937.

Mr. VIEN: Yes.

Mr. FAIRWEATHER: That is, for all of our plans.

Mr. MAYBANK: Have we not a number of employees, Mr. Fairweather, who are not moving forward towards any possibility of superannuation at all? We have here in the civil service a number of people who may have been employed for ten years, or perhaps it is a longer time, and they are still called temporaries, and they are not getting any superannuation; they are not looking forward to superannuation. Is there not something akin to that with the C.N.R.?

Mr. FAIRWEATHER: There is something like that. Our requirements for pension are that you shall have twenty years allowable service, with good conduct.

Mr. VIEN: That is permanent employment.

Mr. FAIRWEATHER: Permanent employment. If you happen to have been an old employee before the days of the change over—

Mr. MAYBANK: That was 1935.

Mr. FAIRWEATHER: That was 1935; that is fifteen years. The older employees must give fifteen years; the new employees must give twenty years.

Mr. MAYBANK: That is not the end.

Mr. FAIRWEATHER: Now I am coming to what you are saying. Anybody who gets under those deadlines will get a pension. If he fails of that requirement of fifteen or twenty years, he fails of pension benefit, except that our new plan does provide that if a man, let us say, came into the service and had nineteen years service, the contributory portion of the C.N. pension plan is available to him after he has had ten years service; and, consequently, he would have been able to contribute for nine years. The company will allow him a pension at the end of his service arising out of his contributions and the company's matching contributions, but he will fail to get the service pension or the basic pension.

Mr. MAYBANK: We have under that this situation, have we not: a large number of employees who appear—

Mr. VIEN: Seasonal or otherwise?

Mr. MAYBANK: No, not seasonal.

Mr. VIEN: Permanent?

Mr. MAYBANK: Yes, who at the very moment they were hired appeared to be permanent; it was apparent that they were going to be permanent employees. At any rate, as a year or two years went by, it was quite certain in everybody's mind that they were permanent employees and they have so remained permanent, working not seasonally but working every day of the year. They work for ten years. They make no contributions. In spite of willingness to make contributions, they cannot make contributions.

Mr. FAIRWEATHER: Not for the first ten years.

Mr. MAYBANK: Not for the first ten years?

Mr. FAIRWEATHER: That is right.

Mr. MAYBANK: How many years service must a person have before he can get pension? Is it not twenty?

Mr. FAIRWEATHER: That is, to qualify for the basic or the service pension?

Mr. MAYBANK: Well, at the age of 65?

Mr. FAIRWEATHER: At the age of 65 he would have to have twenty years service if he is a new employee.

Mr. MAYBANK: A person entering the service at 35 makes no contribution until he is 45?

Mr. FAIRWEATHER: Right.

Mr. MAYBANK: And he is expected to retire twenty years thereafter and is supposed to make a contribution for twenty years and it will be matched?

Mr. FAIRWEATHER: Yes.

Mr. MAYBANK: And they will get their pension based on a percentage of their whole time based on a percentage of their last eight years or what?

Mr. FAIRWEATHER: No. Under our plan an employee such as you describe would get his basic pension of \$300 a year; and then he would get an annuity purchaseable with his contributions and accrued interest plus the company's contributions calculated on an actuarial basis; and the two things together would make up his pension.

Mr. VIEN: But that is based on the number of years' service, is it?

Mr. FAIRWEATHER: It is related to it, because his earnings are related to his years of service.

Mr. VIEN: Take the case suggested by Mr. Maybank, that of a person getting into the service at 35 years of age, at 45 years of age he is permitted to contribute to the plan?

Mr. FAIRWEATHER: Yes.

Mr. VIEN: And when he retires at 65 years of age, he has his basic pension of \$300.

Mr. FAIRWEATHER: That is right.

Mr. VIEN: And would the pension paid to him be based on the thirty years that he has been in the employ of the company or on the twenty years he has joined the plan?

Mr. FAIRWEATHER: Neither. It would be based on how much money he had in the trust fund.

Mr. VIEN: I see. Then when he joins at the age of 45, after ten years of service, is he eligible to contribute to the fund for the ten years that he has already served?

Mr. FAIRWEATHER: No. There is the point. For that ten years—

Mr. VIEN: He gets the basic pension?

Mr. FAIRWEATHER: He gets his basic pension and he gets that without any contribution; but he has to give the service to qualify for it. Coming to your point, there is a relatively small proportion of men who come to age 65 and fail of pension. We pensioned last year 991 employees; I would hesitate to place the figure as to how many men went out of the service without pension, but it would only be a small fraction of that number. It might be perhaps 70 or 80 men or something like that.

Mr. BARBER: What portion contribute?

Mr. FAIRWEATHER: I beg your pardon?

Mr. BARBER: About what proportion would be contributing towards pension?

Mr. FAIRWEATHER: Of those who are eligible to contribute?

Mr. BARBER: No, of the employees.

Mr. MAYBANK: There are two different pensions.

Mr. VIEN: Take the 900 odd employees who were pensioned last year. How many of them were contributory and therefore getting benefits under your plan?

Mr. FAIRWEATHER: Under the contributory operation?

Mr. VIEN: Yes.

Mr. FAIRWEATHER: Of course, they all get their service pension. I would not want to say offhand, but I think a little better than 50 per cent of them, perhaps 60 per cent.

Mr. VIEN: But it will increase from year to year?

Mr. FAIRWEATHER: Yes.

Mr. EMERSON: Would that apply throughout the system?

Mr. FAIRWEATHER: Yes, it would apply throughout the system. There are about 7,000 employees in the I.C.R. & P.E.I. fund.

Mr. DEACHMAN: How do you account for this: On the general expense item on page 17 the pensions are given as \$4,022,000, and last year they are given as \$4,159,000?

Mr. COOPER: Some of the expenses is charged to the express department, some to the telegraph department, some to hotels and subsidiary companies. The figure of \$4,159,000 is the combined total.

Mr. DEACHMAN: This covers the whole and the other is purely a matter of railway operation.

Mr. MAYBANK: These questions are not quite relevant to the one I asked. Coming back to my question, I am thinking of people who probably will be retired before 65. Some people age much more quickly than others, particularly in the case of women. The persons whose cases I was citing are those who have probably been contributing for ten years; what would they get out of that if they were forced to retire?

Mr. FAIRWEATHER: If they were at age 60 with 20 years of service they may retire upon a medical officer's certificate. If they are below age 60 and have thirty-five years of service they may retire. That is, if you have thirty-five years of service you may retire if you are sick, although you are not age 60. But if you are age 60 or upwards you must have twenty years of service.

Mr. MAYBANK: What are the reasons for not permitting permanent employees, as they appear to be, to contribute during the first ten years?

Mr. FAIRWEATHER: Because you give them a basic pension free.

Mr. MAYBANK: Yes, but you only give them that if they reach the age of 65.

Mr. FAIRWEATHER: Yes, but after all, the railway pension plan is designed to promote long and faithful service. It is compensation for long and faithful service.

Mr. MAYBANK: You must have a great many people who drop out short of age 65 and cannot carry on. I am not thinking so much of men as I am of women.

Mr. FAIRWEATHER: They get their contributions back with accrued interest.

Mr. MAYBANK: Yes, but for ten years they have not been allowed to make any.

Mr. FAIRWEATHER: No, but they have their salaries.

Mr. MCKINNON: Take the case of a person who is employed for ten years but not consecutively?

Mr. FAIRWEATHER: Yes.

Mr. McKINNON: That person may be employed probably three or four months of the year; how do you base the ten years, on 12 months' service?

Mr. FAIRWEATHER: No, it is ten years from the date of their last entry into the service; consequently a man who came into the service and worked seasonally, supposing he joined the service to-day, in ten years from to-day he would be eligible to contribute, although he might have actually worked only five years.

Mr. KINLEY: Mr. Chairman, may I have a report on the disposition of the case of a railway man in my riding named Millege Weagle, and the file?

Hon. Mr. HOWE: You may have the report but not the file.

Mr. KINLEY: I should like to have the report to-morrow. It is a basic pension but there is a principle involved which I think is important. I want that report to-morrow morning.

Hon. Mr. HOWE: I presume the officers will give you that report.

Mr. FAIRWEATHER: What is the name?

Mr. KINLEY: Millege Weagle.

Mr. FAIRWEATHER: Is that an I.C.R. & P.E.I. provident fund case?

Mr. KINLEY: No, it is a basic pension. There is quite a file on it.

Mr. SMART: It would be the Halifax and South Western.

Mr. FAIRWEATHER: That is Canadian Northern.

Mr. WALSH: Could you refer to page 6, cartage service?

Mr. KINLEY: At the meeting to-morrow I should like to have that. There is a very important principle involved in that pension and I do not think the man has been treated fairly.

Mr. ARMSTRONG: That was recently granted, was it?

Mr. KINLEY: Granted?

Mr. ARMSTRONG: It was recently dealt with.

Mr. KINLEY: Within six months.

Mr. ARMSTRONG: You say his name is Weagle?

Mr. KINLEY: Yes, Millege Weagle.

Mr. VIEN: There was a case of hardship which came to my knowledge wherein the regulations worked havoc with a family. I do not blame the system, but I think it could easily be corrected. Let us take the case of a man of 63 or 64 years of age who dies before being retired; in that case his widow is without pension. I think it should be possible to correct that so as to enable the widow of an employee who dies without being pensioned to benefit somehow under the benefit plan. In one case the employee had been in the employ of a company for almost forty years. He was a station agent when he died, but he died just a few months before being pensioned and his widow received only the refund of his contributions to the fund which amounted I think to \$600 or \$700 all told.

Mr. FAIRWEATHER: That is undoubtedly a point. I will say this, that the Canadian National pension plan is the most generous pension plan of all that I have examined in that regard. You take the United States Railroad Retirement Act, this option of a widow's pension has to be given, in their case, five years in advance of retirement, or it has to be based upon a medical certificate that the man is in good insurable health. In the case of the Canadian National Railway a man has the option of changing his pension into a joint and survivor annuity right up to the minute of his retirement or death. And he has the maximum degree of facility for doing it. If he does not do it, then, of course, his widow is refunded the contributions. I do not know how we could make it automatic.

Mr. VIEN: I would suggest that after 60, if an employee dies after a certain number of years' service, his widow should have the option of electing between the refund of his contributions and her pension under the plan. I suggest you could probably correct some hardships in that way. I am not blaming the plan as it is at present, but I think it could be improved in that direction.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. YOUNG: I should like to ask the management how this pooling arrangement is working out. First, how much pooling is there and what has been the experience over the years with it?

Mr. FAIRWEATHER: You are referring to passenger train pooling?

Mr. YOUNG: Yes.

Mr. FAIRWEATHER: Passenger train pooling consists of all the passenger revenues between Quebec and Toronto and between Ottawa and Toronto.

Mr. MAYBANK: That is the full extent of it?

Mr. FAIRWEATHER: That is the full extent of it. It produces an economy, a substantial economy, as compared with competitive conditions which existed previously. I think on the whole it is working out reasonably satisfactorily. Certainly it is producing economies, and it has eliminated a certain amount of duplicate competitive train mileage.

We have at present under study the idea of extending the passenger train pooling arrangements, as referred to in the annual report, to include all duplicate competitive passenger train service in Canada.

Mr. YOUNG: Will you explain to the committee just how the revenues are divided between the two companies?

Mr. FAIRWEATHER: The revenues are divided between the companies equally.

Mr. YOUNG: Equally?

Mr. FAIRWEATHER: Equally.

Mr. MCKINNON: Regardless of what equipment is used?

Mr. FAIRWEATHER: The principle of the pool is to treat the revenues and expenses separately. Each company gets 50 per cent of the pooled revenue and each company is responsible for the same proportion of service as it had been rendering prior to the pool.

Mr. MCKINNON: The point I have in mind is this: The train that goes out to Toronto at night has on it, we will say, a C.N.R. locomotive and probably nine or ten Canadian National cars.

Mr. FAIRWEATHER: We would not have a C.N.R. locomotive on that train; it would be a C.P.R. locomotive. There might be C.N.R. cars on it.

Mr. MCKINNON: If they have C.N.R. cars on that train would the revenue be split fifty-fifty?

Mr. FAIRWEATHER: It is not from that particular train, it is the revenue of all the tickets that are sold in and through Ottawa going to Toronto. It does not matter what train you move on, the revenues are pooled. You may go between here and Toronto on a non-pooled train and still the passenger revenue is pooled. The revenues are pooled irrespective of the train on which you move. And the revenues are divided fifty-fifty, that being the proportion that each company is satisfied that it had before the pooling arrangement, not on any one particular route, but with regard to the whole pooled services.

Mr. VIEN: With respect to the equipment?

Mr. FAIRWEATHER: Well, with respect to the equipment, trains and engines, and train crews and things of that character, each party is responsible for the same proportion of train miles and the same proportion of car and locomotive

miles and everything else like that as it had been furnishing under the competitive conditions prior to the pool.

Mr. VIEN: Would that be fifty-fifty?

Mr. FAIRWEATHER: Not necessarily, no; the C.P.R. had more service prior.

Mr. YOUNG: Supposing that one service was going down and the other coming up; we will say the Canadian National had a bigger proportion before, but suddenly the people decided they wanted to travel via the C.P.R.

Mr. FAIRWEATHER: Once the pool is made the thing is fixed.

Mr. YOUNG: Nothing is taken into consideration later on?

Mr. FAIRWEATHER: No. Once the thing is pooled it is fixed.

Mr. YOUNG: What about the railway itself, the actual road over which it runs; how is that adjusted?

Mr. FAIRWEATHER: Well, that is adjusted through the basis of train miles. Each company has to run its proportion of train miles, car miles and locomotive miles; it has got to repair its proportion of locomotives; it has to repair its proportion of cars and it has to provide its proportion of train miles. Everything is all set up on a formula.

Mr. YOUNG: I am talking about the tracks.

Mr. FAIRWEATHER: The tracks come into the train miles.

Mr. MCKINNON: Each company runs over its own road bed?

Mr. FAIRWEATHER: Each company runs over its own road bed, except getting into and out of Montreal, two pool trains run to and from Windsor street station and divert at Dorval to and from the Canadian National. They run over the Canadian Pacific from Windsor street station out to Dorval station. The party on whose tracks the train is operated operates the engine and provides the train crew.

Mr. VIEN: But from Montreal to Toronto and from Ottawa to Toronto most of the road used is the C.N. road, isn't it?

Mr. FAIRWEATHER: No. Between Ottawa and Toronto the Canadian Pacific road is used almost entirely for both trains.

Mr. VIEN: But to Brockville?

Mr. FAIRWEATHER: I mean between Ottawa and Toronto. There is a train that goes from Ottawa over C.P.R. tracks to Toronto and there is another one that connects with the C.N.R. at Brockville. Cars on the one that connect at Brockville, continue on the Canadian National line to Toronto. The other one goes down to Peterborough and goes through on the Canadian Pacific. Now, between Quebec and Montreal the pool services are all run on the Canadian Pacific rails. Between Toronto and Montreal the pool services are run partly on Canadian National and partly on Canadian Pacific, mostly on Canadian National.

Mr. VIEN: And each company maintains its road bed?

Mr. FAIRWEATHER: Each company maintains its road bed. You see, the road bed use is covered by train miles and car miles and that way it is adjusted.

Mr. VIEN: And it is through that policy that a balance is maintained between the two roads?

Mr. FAIRWEATHER: Oh, yes.

Mr. HOWDEN: I want to come back to this rolling stock for a minute. I guess this is as good a time as any to ask the management what their policy is with requirements for rolling stock; if it is still the policy of the company to build some of the rolling stock and buy other rolling stock, and if there is a prospect of our getting any more building? The reason I mention this is because perhaps the largest shop on the system is out where I live, in Transcona. They

have a great many employees there and a very large proportion of them are idle most of the time, and yet I have reason to believe there is a good deal of work to be done in that shop. It may be that the company cannot afford to do it just now, but there is usually a wail from these people that they are in a position, both as to themselves and as to the equipment in the shop, to build any equipment that is required by the railways. They have told me many many times that they were in a position to build locomotives, they build some engines, and there is very great exception taken by them to the government sending contracts out to the contract car shops when their own employees are idle a great deal of the time. It has been the policy of the government in the past, I believe, to make more or less of a division, and the regular employees do feel that they have been getting a little the worse of the deal. If the management is in a position to make any statement along those lines I would be glad to hear it.

Mr. HUNGERFORD: It was formerly the practice to do repair work in the government shops, and also from time to time to let a portion of the repair work out to the contract shops. That has not been done for many years. The repair work is done entirely in our own shops. Our own shops, generally speaking, are not equipped to build certain kinds of rolling stock advantageously, notwithstanding what the men say.

Mr. HOWDEN: But they have built rolling stock at Transcona?

Mr. HUNGERFORD: Of certain kinds.

Mr. HOWDEN: Yes.

Mr. HUNGERFORD: But it is the policy to place equipment of that kind for which our shops are well equipped to do in our own shops, and on the other classes of equipment to place it in the contract shops.

Mr. MAYBANK: Taking up two or three words there; is it the policy to give the publicly assisted shops everything that they can advantageously do, or a part of that only?

Mr. HUNGERFORD: Very largely, Mr. Maybank.

Mr. MAYBANK: Do we contract out to any extent work that we could advantageously do?

Mr. HUNGERFORD: No, we do not.

Mr. MAYBANK: That, of course, is what the claim is. They say that such-and-such a piece of work has been farmed out and we could certainly do it here. That is what they say.

Mr. HUNGERFORD: For instance, just to illustrate the case: For years past we have placed orders for refrigerator cars in Transcona, and sometimes in some of our other shops. The Transcona shop is well equipped for that purpose, but it would be folly, in my mind, to have box cars built there, cars of the modern type, because it is simply an assembling proposition. Nearly all of the material is fabricated and most of it would have to be shipped to Winnipeg and simply put together and in all probability we would have to pull the cars back east. You would not have much economy in doing that.

Mr. MACKINNON: You have never built any locomotives there?

Mr. HUNGERFORD: A few; we have also built a few at one of our other shops.

Mr. MACKINNON: Is it advantageous to build locomotives in the Transcona shop?

Mr. HUNGERFORD: I think that unless some unusual condition arises—as a matter of fact, we have bought very few locomotives for several years back.

Mr. MACKINNON: You have the equipment to build locomotives at Transcona?

Mr. HUNGERFORD: We can, with a certain amount of difficulty.

Mr. VIEN: How is this system fixed with respect to rolling stock replacements? A few years ago, if I mistake not, parliament voted \$15,000,000 to provide for modern equipment to the two railway systems. If memory serves me right, that was in 1933 or 1934. Is that right, Colonel Smart?

Mr. SMART: Yes.

Mr. VIEN: How is the system now fixed with respect to its requirements? Has it all the rolling stock it desires of the modern type, or would it require anything similar? I am sure the minister will relish the idea of putting in the budget or in the estimates another \$15,000,000 to help you.

Mr. HUNGERFORD: In my opinion the Canadian National Railways is reasonably well equipped with locomotives to take care of the business that is in sight, but it will be necessary from time to time possibly for us to replace some units when they wear out. They are wearing out continuously, and we have to retire a certain number every year. A certain proportion of new equipment will have to be purchased from time to time.

Mr. VIEN: For the time being you feel that you are sufficiently provided for?

Mr. HUNGERFORD: We have some orders out now.

Mr. HOWDEN: When it is feasible to build that equipment in the company's shop is there a prospect of them getting the opportunity?

Mr. HUNGERFORD: I beg your pardon?

Mr. HOWDEN: I say, when it is feasible to build these replacements in your own company shops is there any prospect of them getting the business to do there.

Mr. HUNGERFORD: It all depends on the class of equipment, Mr. Howden.

Mr. HOWDEN: I say, when it is feasible.

Mr. HUNGERFORD: I do not mind saying we have gone to a great deal of trouble, I would not say expense, a good deal of difficulty and trouble to place work of that character in our own shops. In other words, we have placed orders there when it has involved long delays in having it turned out. We could have got it from contract shops much quicker, but we have tried to meet the situation reasonably well. If a particular shop is reasonably well equipped to perform the work we give them the work. As a matter of fact we have made very serious efforts to do it from time to time.

Mr. EMMERSON: There were certain snow-plows that were built in the Transcona shops, as I understand it?

Mr. HUNGERFORD: Yes.

Mr. EMMERSON: Where did those snow-plows go, to what part of the country?

Mr. HUNGERFORD: Oh, they were sent all over, some went as far east as Moncton, I believe.

Mr. EMMERSON: Were most of them taken east?

Mr. HUNGERFORD: I cannot remember the particulars.

Mr. EMMERSON: Were there not 17 of them sent out to Vancouver?

Mr. HUNGERFORD: There may have been.

The CHAIRMAN: Shall we refer to the Montreal terminal?

Mr. WALSH: No. To the cartage service. I would like to have a little more complete explanation of that, touching these points: What class of expenditure was involved in putting into effect this service; and was the equipment for this service purchased new or was it all taken over from the old company—that might have been involved with to what extent were economies effected by the development of this new service? That will be found at the bottom of page 6.

Mr. FAIRWEATHER: Well, I gather that what you want is a statement of the capital expenditure in that new venture?

Mr. WALSH: Yes.

Mr. FAIRWEATHER: How many trucks were purchased new, and how many were purchased second-hand?

Mr. WALSH: Yes, just a list of those. What I am trying to find out is whether this involved any outlay of capital expenditure to any great extent, and if the management feel that they have been able to effect a real economy in the thing, considering the capital that has been invested in it.

Mr. FAIRWEATHER: I can speak to that very positively. Before this particular venture was entered into I was charged with making a very thorough analysis of it, and we did that, and we made estimates of the cost. We also procured figures from the contractors as to what they were willing to renew their contract at, and they wanted an increase. They said they could not carry on at the old contract rates; and based on the forecast which we made we negotiated with the Canadian Cartage and Storage Company for the acquisition of their property and for the lease for a limited period of time of their garage and stables. We took over from them a number of horse-drawn vehicles and a number of partly used trucks, some of them were almost new and some of them were as old as ten years. After we had acquired the property we found it advantageous,—as a matter of fact we knew it and had made provision for it in the estimates,—we had to buy some additional equipment. But I am happy to say that the estimates we made of the result of this particular operation proved to be quite accurate, and there has been a handsome return on the capital which was invested in the property, quite a handsome return. And in addition to that, we not only reduced our costs on cartage services in Montreal, but we also improved the service as the shippers have found out; so that we achieved an economy in operation and we also improved our service. If you would like the figures they can be supplied as to what it amounts to, the amount of capital is not very great.

Mr. WALSH: It represents a profitable venture as far as you are concerned?

Mr. FAIRWEATHER: It is a highly profitable venture. The total amount of capital involved in this thing is less than \$200,000.

Mr. WALSH: There might be the possibility of extending that type of service to other points.

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Mr. WALSH: There might be the possibility of extending that type of service to other points.

Mr. FAIRWEATHER: That is under study.

Mr. McKINNON: On page 6 there is an item pertaining to Trans-Canada Air Lines which says:

During the year additional calls aggregating 47 per cent, or \$2,350,000 on the capital stock (\$5,000,000 of the Trans-Canada Air Lines were met by the Canadian National Railway Company).

None of that I presume would go to interest other than the Canadian National. The Canadian National is absorbing all of that, is that right?

Mr. FAIRWEATHER: Yes, that is correct.

Mr. YOUNG: What benefits have accrued to the railway companies under bill 31 of last year having to do with agreed charges?

Mr. HUNGERFORD: Nothing yet, but developments are under way. The matter is necessarily quite a complicated one to get under way and started. There has been a joint committee of the traffic officers of the two railways that

have been working on it continuously since the bill was passed. Very substantial progress has been made in certain directions but no agreements have been consummated as yet.

Mr. YOUNG: No agreements consummated?

Mr. HUNGERFORD: Not yet, none have yet been brought to consummation, but there are a considerable number of them on the way.

The CHAIRMAN: Has the Board of Transport Commissioners issued their regulations?

Mr. HUNGERFORD: Yes.

Mr. VIEN: I speak from memory, but I thought that the board's regulations which had first been issued were later, two or three weeks ago, suspended—I do not know whether I am correct or not as to that.

Hon. Mr. HOWE: I do not think so, Mr. Vien. The Act was promulgated some months ago, three or four months ago, and the board's regulations were issued.

Mr. YOUNG: Is it anticipated that there is quite a field there for betterment?

Mr. HUNGERFORD: We expect very substantial developments from it.

Mr. VIEN: If I am not mistaken I saw something in the paper two or three days ago intimating that the system contemplated establishing bus and truck services from the city of Quebec to the lake St. John territory.

Mr. FAIRWEATHER: That is correct, a bus service.

Mr. VIEN: Would it be along these lines, through Roberval and Chicoutimi and then through the national park?

Mr. FAIRWEATHER: No; there are two highways within the St. John territory, one through the park, and one a little to the east of the park, and the application we now have in, relates to the main highway which runs east of the park, the short route.

The CHAIRMAN: Through the transmission line?

Mr. FAIRWEATHER: Yes; we also contemplate, when public convenience and interest warrants service to the park, to apply for that, because we feel we should be the people to furnish that service.

Mr. VIEN: I agree with that. I think many of the bus and truck lines that have been established would be a better utility for the public if the railway were the ones to undertake them. Then, with regard to suburban services, I believe, subject to correction, that the railways might find it more economical to run a bus and truck service than their rail services, and they would have the additional advantage of pick-up and delivery services from door to door.

The CHAIRMAN: Shall we revert to the Montreal terminal?

Mr. DEACHMAN: Mr. Chairman, when we were discussing this before I had asked Mr. Fairweather for some comment on the advantages of the new terminals in the way of freight service. I want to quote here one or two sentences which I ran across to-day, and which I think are interesting. They are taken from the Coolidge report of 1933. He says:

As Mr. Loree has well expressed it, "the large terminal station and the large terminal yard are the graveyard of cars."

Then follows this comment:

If such items as surplus cars, Sunday and holiday delays, and delays due to repairs be eliminated from the calculations, 86 per cent of the time is chargeable to terminal operations and only 14 per cent to the line haul.

He goes on to say this:

More expeditious and regular movement of freight is therefore, conditioned very largely by the adequacy of terminal facilities and the effectiveness shown in their use.

Another comment is:

Terminal costs form a large part of the aggregate cost of furnishing transportation service. The lay public think of railroads too exclusively in terms of road mileage.

Another comment is:

The terminal is a competitive device of major importance. It is difficult for laymen to appreciate how all-important it is for carriers to have terminal facilities as good as those which their competitors enjoy. The explanation rests in the controlling influence which terminal facilities exert over the securing of the line haul. Nearness to the wholesale centre of a city and to the chief industrial districts and direct connection with as many large industrial establishments as possible are of decisive importance in the securing of business.

Now, in view of these comments I should like to have some further information from Mr. Fairweather in regard to the general principle of larger expenditures upon terminals, and also upon the particular efficiency of this terminal in so far as the handling of traffic is concerned and in the advantages of drawing more traffic to the line through providing modern terminal facilities in Montreal.

Mr. FAIRWEATHER: Well, that is a mouthful, but it is very pertinent.

Mr. DEACHMAN: It is such a mouthful I thought possibly you might want to answer it in the morning.

Mr. FAIRWEATHER: That is as the committee may desire.

Mr. WALSH: I believe a large part of it Mr. Fairweather answered in the elaborate statement he read to the committee this morning.

Mr. DEACHMAN: This is a statement by the commission in the United States on this question of applying sound principles, and I wondered if Mr. Fairweather could apply it to Montreal and perhaps to other points.

Mr. WALSH: I think Mr. Fairweather covered it very elaborately in the report he read this morning. I think the report you read this morning covered a full and complete justification for the building of the terminal station and the completion of the terminal plans.

The CHAIRMAN: Can we take it for granted that you agree with it?

Mr. WALSH: I do not agree with the work. I intended to make my position perfectly clear before the committee rose; but I agree with the suggestion that terminals should be developed more adequately than they are in Montreal at the present time.

I am a very strong believer in the union station and union facilities for terminal purposes, but I do not think this is the proper moment from an economic point of view, considering the financial stress generally, to undertake capital expenditures of that nature. That is the only objection I have to it. If we were in a flourishing condition financially I would say, by all means go ahead and build your terminal; but I do not think Montreal is being fairly dealt with in going ahead with this plan without a proper consultation with others who are directly interested. I am think of the C.P.R. in particular. And now, one of the questions I had to ask in connection with this was this: was this whole matter discussed by this committee that is presumed to be working on a plan of co-operation? If there is one feature in which railways could co-operate it is in terminal facilities and union station plans. That is one place where they

can co-operate, and if Mr. Fairweather will agree with me in this he will say that terminal facilities and stations are not a contributing factor to a profitable operation of railways; that is, they do not give you a good profit; they are always operated at a loss.

Mr. DEACHMAN: Mr. Chairman, the quotations that I gave are directly contrary to that assertion, and I should like to have a further expression of opinion from somebody.

Mr. WALSH: No, not contrary to what I am saying at all; it bears out what I am saying.

Mr. DEACHMAN: No, not at all.

Mr. WALSH: I go a step further and say, it is a necessary complement to any railway, in fact to any transportation system to have what is recommended there. It is quite a necessary complement, but it is never a complement that is going to be operated at a profit; it is always going to be operated at a loss.

Mr. DEACHMAN: That is directly contrary to this statement. This is what he says:—

Terminals exert a controlling influence over the character and cost of transportation service.

Then he goes on to say:—

The explanation rests in the controlling influence which terminal facilities exert over the securing of the line haul. Nearness to the wholesale centre of a city and to the chief industrial districts and direct connection with as many large industrial establishments as possible are of decisive importance in the securing of business.

If you have good terminals, in other words, you have greater facilities for doing business and you draw more traffic.

Mr. VIEN: I think it has been recognized, and it was submitted to the royal commission who investigated the railways that wherever it is possible, union stations and terminal commissions taking the control of all the railway operations within a terminal area are desirable; but Mr. Walsh has put the following question: have the two railways been consulting each other and have they consulted competent authorities to find out whether this system is best for Montreal? I might state in this regard that this question has been studied since 1927. I was deputy chief commissioner of the Board of Railway Commissioners in 1927 when we directed the Canadian National Railways to provide plans and specifications for adequate terminal facilities at Montreal. Immediately after that the interested parties were convened before the board and it took two years, from 1927 to 1929, for the interested parties to file their suggestions, their individual suggestions, and at that time the Canadian Pacific Railway refused to join in the construction of the terminal and the tunnel, and suggested that we should use Windsor station for westbound trains and Place Viger for eastbound trains. The Canadian National Railways went very thoroughly into this question. They had experts from New York and elsewhere and their reports were filed with the Board of Railway Commissioners.

Then, other interests were also consulted, the Montreal tramways, the city of Montreal and other interests who retained the services of Mr. Williamson and the old Armstrong plan as improved by Mr. Williamson was also submitted, involving some 20 miles of subways, a subway from Montreal south to Montreal north, from a certain point west on Atwater street to a certain point east on St. Denis or something of that kind. It was at that juncture that Mr. Dunning who was Minister of Railways, invited Sir Frederick Palmer, who was on his way back from the Hudson bay to study all the suggestions that were filed, and I recall that Sir Frederick Palmer consulted the Board of Railway Commissioners in that

respect, and finally you have Palmer's report and the presentation of 1929 authorizing the Canadian National Railways to go on with this scheme that had been approved after a very thorough study of all the plans that had been suggested.

Then, in 1929 and 1930 the land was acquired and the various buildings that were in the way were demolished and the big hole was dug. Due to the depression the work was suspended for a time and there was a clamour of public opinion for the construction of these terminal facilities as much in the interest of the Canadian National Railway system which was at a great disadvantage in operating in Montreal, the metropolitan area, as in the interest of the general public using the terminal facilities at Montreal. I believe that there is no gainsaying the fact that adequate terminal facilities for the Canadian National Railways were much overdue and the merits or demerits of the various schemes that were suggested have been exhaustively gone into, to my knowledge, by the most eminent experts that could be invited to offer a suggestion.

I must confess that in my heart and soul I should have liked a terminal company or commission to be set up and all the railways using the Montreal terminals joining in with the city and with the Montreal tramways to give rapid transit and terminal facilities in the district of Montreal; but I realize that it is almost impossible to use compulsory methods to compel either the Canadian Pacific Railway or the New York Central or other railways to use Montreal terminals to come into that city. They may be forced to it in time by force of circumstances but we have to break, in my opinion, the vicious circle somewhere, and no city of the size of Montreal would have endured for ten years the abominable situation that has been allowed to obtain there.

Mr. WALSH: I quite agree with Col. Vien in his statement. It seems to me we have set up ways and means to enforce co-operation. I am speaking in the interests of the city of Montreal, one of the large cities on this continent, one of the few cities that will be left with terminal facilities so widely separated, with no union station. If the public enjoys any privilege, it is the privilege of a union station; and I think that privilege ought to be made possible to a large metropolitan city like Montreal. We have the ways and means of enforcing co-operation. We have that enabling Act that was passed. We have the committee set up. If the committees meet and cannot agree on terminal facilities and a tunnel station or union station, then there is another step which might be taken; they might call in the services of the chairman of the board of railway commissioners. Is that right?

Mr. FAIRWEATHER: No. I think you are in error there. I think the arbitral tribunal is specifically excepted in the matter of large terminal arrangements. The arbitral tribunal has no power to enforce large terminal arrangements.

Hon. Mr. HOWE: Do you not think there is a time when you must make up your mind? After all, this thing was studied by every expert worthwhile, and the commitment of over \$16,000,000 a very large cost, was built up on that. After you get to that stage, do you think you are still free to turn around and say, "Maybe we do not want to do this after all"?

Mr. WALSH: No. I think the C.N.R. deserves very much improved conditions in Montreal, and I think that some body should be set up. I thought there was the possibility of this co-operating committee along with the Board of Railway Commissioners making it possible to insist on a union station in Montreal. Here is our time to act. Now is the time. If you allow this terminal station to proceed now, it is going to be more difficult in the future to get the different railway lines coming into Montreal to co-operate on union and terminal facilities; at least, that is my impression.

Mr. YOUNG: I should like to ask Mr. Walsh if he knows that the Canadian Pacific would be prepared to join in building this tunnel station.

Mr. WALSH: Very unfortunately I am not in the confidence of the Canadian Pacific; but I am in the confidence of men who are vitally interested in Montreal, largely interested in Montreal—the Board of Trade and others who have been before this committee in years gone by. I know they are interested in the development that I have in mind; Col. Vien is interested in the development I have in mind. There are these ways and means of getting it. I feel that proceeding now with this tunnel station is wrong, first, from the point of view that we cannot afford it financially. Here we are with a report before us of \$54,000,000 in the red this year. But despite that fact we are going ahead with this expansion project. My second objection is that if we have not got ways and means set up already of forcing our railways coming into Montreal to use the union depot and certain terminal facilities, we ought to set up a body which will simply say, "This is what is going to be done" and it will be done.

Mr. McKINNON (*Kenora-Rainy River*): Mr. Chairman, are the Canadian National railways willing to co-operate in the building of the union station?

Mr. HUNGERFORD: Yes, at the tunnel side.

Mr. WALSH: You get the same thing.

Mr. McKINNON (*Kenora-Rainy River*): Just a minute. The reason that the union station has not been gone ahead with is no fault of the Canadian National for not wanting to co-operate?

Mr. HUNGERFORD: The Canadian National Railways is firmly convinced, after years of study, that the tunnel side is far better for a central station than Windsor street. It might be interesting for me to tell you what happened after amalgamation. When I first went to Montreal as operating vice-president of the Canadian National Railways, one of my first duties was to study, or have studied, the co-ordination of terminals all over the country, wherever various constituent lines contacted; and Montreal was easily the largest one to be considered. I was responsible for the inception of private study, secret study, of the whole situation; and I started from the premise of trying to make Windsor street station the central station, by getting both railways in. I very reluctantly came to the conclusion ultimately that it just could not be done on sensible lines, and that is my conviction to-day.

Mr. McKINNON (*Kenora-Rainy River*): In other words, you are willing to co-operate if you have it where you believe the proper place is?

Mr. HUNGERFORD: Yes.

Mr. McKINNON (*Kenora-Rainy River*): And we can assume that the C.P.R. would cooperate if they could have it, where they think the proper place is?

Mr. HUNGERFORD: I cannot speak for the Canadian Pacific.

Mr. VIEN: It is a question of record. The Canadian Pacific have gone on record suggesting that the treatment to be given to the Montreal terminal would be to use Windsor street for westbound trains and the Place Viger and Park Avenue for eastbound trains. But as I say, these submissions have been made in writing, and the estimate of the cost; speaking from memory, the estimate of the cost was also given as being something like \$20,000,000 at that time, of converting the Windsor station and converting the Place Viger. But other experts said that it would be vastly in excess of that. But the C.P.R. estimates, as conformed by the board, I think will reveal—and I speak from memory, but I think you will find it correct—that their estimate was that it would be around \$20,000,000. But that is after this submission of the C.P.R. The C.P.R. objected to going to the tunnel. The Canadian National found that the tunnel was the better site; the Canadian National were willing to accept the Canadian Pacific in the tunnel station, and Palmer says so in his report.

But the Canadian Pacific refused to go there and insisted that if any general terminal was to be built, it should be by using Windsor street and Place Viger.

Mr. McKINNON (*Kenora-Rainy River*): Would there be any other reason beside the financial one?

Mr. VIEN: The financial one was the one put forward and uppermost I think, in the considerations that were suggested; but also there was the fact that the Canadian Pacific had their own tracks and station facilities, and that they could not abandon them on account of their patrons along those lines.

Mr. McKINNON (*Kenora-Rainy River*): And the terminal facilities that the C.P.R. had were adequate for their purposes; is that right?

Mr. VIEN: In their opinion; and could be enlarged to give facilities to the other railways as well.

Mr. YOUNG: I should like very much to congratulate Mr. Fairweather on the statement he made to us to-day with regard to the Montreal terminal. I think he made a very excellent presentation of the facts. Some of us were here years ago right in this very room where there was a model set up of this whole thing; for a whole week, I think, we studied the plan with experts of the railways; and later we had a meeting here and it finally went through the house. But this morning and this afternoon he has convinced me that what was decided at that time was decided in the best interests of the road.

The CHAIRMAN: Quite right.

Mr. YOUNG: Personally, I always feel that if we can have joint terminals, so much the better. But I believe from what we have heard to-day, in addition to what we knew before, that a very strong case—I would almost say an unanswerable case—was made out that the terminal station would be the one station in that area which would serve best for all parties concerned. Another thing I should like to say,—in case it might be taken as the opinion of the committee that this is not the time to do it,—is that my own view is that when we have unemployment as we have to-day, if there is ever a time when governments or government institutions should undertake to give wages to men, this is the time. Any time of depression would be a better time to do it than when there is great prosperity. I should not like to think that Mr. Walsh was voicing my view that this is an improper time owing to any financial stringency which may exist. We can find money for other things. I think we should be able to find money for a useful thing. In my judgment, knowing Montreal as I have for many years, there is nothing more necessary there in that area than a proper terminal facility for the Canadian National Railways.

The CHAIRMAN: Shall the report carry?

Mr. WALSH: No, no. We will come back to the report to-morrow. I want the president to let me know to-morrow at what date the directors of the Canadian National Railways decided to go ahead with the plans of the tunnel station in Montreal. An answer to-morrow will be satisfactory.

The CHAIRMAN: Gentlemen, shall we adjourn until four o'clock to-morrow afternoon?

Mr. WALSH: I have three questions I wanted to submit so that I can get answers, just bringing certain data up to date. I have them here in writing.

On page 55 of the minutes of standing committee on railways and shipping, Wednesday, April 27, 1938, we have a statement in answer to a previous question by myself, covering detail of hotel operation. I should like to have filed and entered in minutes of this year a similar statement covering the calendar year 1938. I do not know whether my previous question on hotels covers that or not. If it does not I should like that question answered.

Condensed income statement, including profit and loss, of the Canadian National Steamships (Pacific coast) for the years 1937 and 1938.

I should like this to be similar to statement for the year 1936 filed with the select standing committee on railways and shipping, March 23, 1937, appearing on page 225 of the printed proceedings for that year.

Then a statement showing for each year, 1932 to 1938 inclusive, freight service and passenger service (separately), (a) revenues, (b) expenses, (c) net operation, (d) ratio revenues to expenses. Also capital investment in freight train cars and passenger train cars.

This information was supplied by Mr. Fairweather for the year 1931. See minutes of proceedings and evidence of the select standing committee on railways and shipping for May 12, 1932, page 337.

The CHAIRMAN: The committee stands adjourned until 4 o'clock to-morrow afternoon.

(At 6.10 p.m. the committee adjourned to meet again at 4 p.m., Wednesday, April 19, 1939.)

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SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

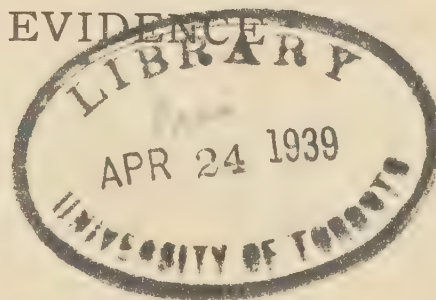
ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2



WEDNESDAY, APRIL 19, 1939

WITNESSES

- Mr. S. J. Hungerford, President;
- Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Departments;
- Mr. S. W. Fairweather, Chief of Research and Development;
- Mr. T. H. Cooper, Comptroller;
- Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, Canadian National Railways;
- Mr. P. G. Johnson, Vice-President, Trans-Canada Air Lines, Department of Transport.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1939

MINUTES OF PROCEEDINGS

WEDNESDAY, April 19, 1939.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 4 p.m. Sir Eugène Fiset, the Chairman, presided.

Members present: Messrs. Barber, Cameron, Deachman, Emmerson, Fiset (Sir Eugène), Hanson, Howard, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Ross (*Middlesex East*), Stewart, Vien, Walsh, Young.

In attendance: Mr. S. J. Hungerford, President; Mr. S. W. Fairweather, Chief of Research and Development; Mr. T. H. Cooper, Comptroller; Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, Mr. R. C. Vaughan, Vice-president, Purchasing and Stores Departments, Canadian National Railways.

The Committee resumed consideration of the 1938 Annual Report of the Canadian National Railway System. Mr. Young expressed strong disapproval of perpetual bonds listed under "Funded Debt—Principal and Interest" on page 19 of the said report.

Mr. Vien agreed with Mr. Young and moved,—

That, in the opinion of this Committee, legislation should be introduced to provide for the redemption, under such terms and conditions as the Department of Finance may deem advisable, of the five securities of perpetual bonds listed at the top of page 19 of the Annual Report of the Canadian National Railway System for the year ended December 31, 1938.

After discussion, by leave of the Committee, Mr. Vien withdrew his motion.

The budget of the Canadian National Railways and Estimates Nos. 442, 443, 454, 588, 589 and 590 were severally adopted.

At 6 p.m. the Committee adjourned until 8.30 p.m.

The Committee resumed at 8.30 p.m. with Sir Eugène Fiset, the Chairman, presiding.

Members present: Messrs. Barber, Deachman, Emmerson Fiset (Sir Eugène), Hanson, Howard, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Parent (*Quebec West and South*), Stewart, Vien, Walsh, Young.

In attendance: The officials who attended this afternoon and Mr. V. I. Smart, Deputy Minister; Mr. C. P. Edwards, Chief of Air Services, Mr. P. G. Johnson, Vice-President in Charge of Operations, Trans-Canada Air Lines, Department of Transport.

The 1938 Annual Report of the Canadian National (West Indies) Steamships Limited, read by Mr. Vaughan, and adopted.

The 1938 Annual Report of the Directors of the Trans-Canada Air Lines was considered. Mr. Johnson outlined the activities. The report was adopted.

The Report of George A. Touche & Company, Auditors of Accounts of the Canadian National Railway System for the year ended December 31, 1938, was adopted.

Mr. Howard suggested that during the next year the Canadian National Railways be asked to spend \$50,000 to publicize what the Canadian National Railways means to Canada, and what it has done in the past. Mr. Walsh was of the opinion that this end could be achieved if Canadian National Railway officials would more fully avail themselves of opportunities for addressing service and other clubs. Mr. Deachman contended that while agriculture is in a depressed condition there is no solution for the railway problem.

Answers were furnished to questions asked by Mr. Walsh at the first meeting of the Committee.

Ordered,—That these answers be printed as an appendix to this day's evidence.

Complaint was made by Mr. Walsh respecting transportation facilities between New Brunswick and Prince Edward Island and in the latter province.

The Committee adjourned to meet at the call of the Chair.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

OTTAWA, April 19, 1939.

The Standing Committee on Railways and Shipping met at 4 p.m. The Chairman, Sir Eugène Fiset, presided.

The CHAIRMAN: Order; we have a quorum of nine. Yesterday we went through the report of the chairman, and to-day I think we should examine the consolidated balance sheet. I shall ask Mr. Cooper to read every item because they have to be printed in the report.

Mr. WALSH: Could they not be copied in the report and taken as read?

The CHAIRMAN: I will be delighted to do that if it is the desire of the committee, because we have already traversed the whole picture. I believe it can be copied in the report.

Mr. MCKINNON: Taken as read.

The CHAIRMAN: The consolidated balance sheet is approved.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1938

ASSETS

Investments:

Investment in road and equipment.....	\$1,856,468.591	53	
Improvements on leased railway property..	4,300.970	25	
Miscellaneous physical property.....	61,614,510	61	
			\$1,922,384,072 39

Sinking funds:

System securities at par.....	\$	326,563	06	
Other assets at cost.....		250,016	79	
				576,579 85

Deposits in lieu of mortgaged property sold:

System securities at par.....	\$	736,000	00	
Other assets at cost.....		4,717,904	82	
				5,453,904 82

Investments in affiliated companies.....				36,139,090 39
Other investments				1,120,247 26

\$1,965,673,894 71

Current Assets:

Cash	\$	8,078,076	46	
Special deposits		6,773,189	49	
Bills receivable		100,000	00	
Traffic and car-service balances receivable.....		1,089,933	36	
Net balances receivable from agents and conductors.....		3,868,285	48	
Miscellaneous accounts receivable.....	\$	4,365,534	06	
Dominion Government—Balance due on deficit contributions		11,117,018	41	
				15,482,552 47
Material and supplies.....		27,856,014	77	
Interest and dividends receivable.....		227,829	13	
Rents receivable		53,123	50	
Other current assets.....		745,689	14	

64,274,693 80

Deferred Assets:

Working fund advances.....	\$	237,468	74	
C.N.R. insurance fund:				
System securities at par.....	\$	5,133,325	73	
Other assets at cost.....		6,835,242	10	
				11,968,567 83

Other funds				14,506 25
Other deferred assets.....				6,033,878 08

18,254,420 90

Unadjusted Debits:

Rents and insurance premiums paid in advance.....	\$	247,306	33	
Discount on capital stock.....		189,500	00	
Discount on funded debt.....		12,090,984	49	
Other unadjusted debits.....		2,900,798	97	
				15,428,589 79
				<u>\$2,063,631,599 20</u>

LIABILITIES

Stocks:

Capital stocks of subsidiary companies owned by public..	\$	4,583,800	00	
Long Term Debt:				
Funded debt unmatured.....		1,249,996,422	59	
Dominion of Canada (accounts treated as assets in public accounts of Canada):				
Loans	\$	48,144,804	73	
Canadian Government railways—working capital.....		16,771,980	54	
				64,916,785 27

Current Liabilities:

Traffic and car-service balances payable.....	\$	2,942,270	52	
Audited accounts and wages payable.....		7,432,810	97	
Miscellaneous accounts payable.....		2,730,780	31	
Interest matured unpaid.....		7,711,897	51	
Funded debt matured unpaid.....		123,069	06	
Unmatured interest accrued.....		9,894,892	30	
Unmatured rents accrued.....		408,552	32	
Other current liabilities.....		1,302,043	47	
				32,546,316 46
Deferred liabilities				3,638,245 60

Unadjusted Credits and Reserves:

Tax liability	\$	1,923,414	70	
C.N.R. insurance reserve.....		11,968,567	83	
Accrued depreciation—U.S. lines.....		16,608,142	08	
Other unadjusted credits and reserves.....		4,761,313	96	
				35,261,438 57

Dominion Government—Proprietor's equity (See note)

Represented by:—

1,000,000 shares of no par value capital stock of Canadian National Railway Company issued in exchange for the residual value of Canadian Northern capital stock.....	\$	18,000,000	00	
5,000,000 shares of no par value capital stock issued by Securities Trust to the Government in consideration for the transfer of securities, advances, claims for unpaid interest and collateral securities.....		266,612,868	53	
Dominion Government capital expenditures for Canadian Government railways		388,075,722	18	
				672,688,590 71

Contingent Liabilities:

For major contingent liabilities, including pension plans, see page 21.

\$2,063,631,599 20

NOTE.—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1938.

The investments in properties and equipment appearing in the books of the companies as at the 1st January, 1923, were accepted by us.

The accounts of the System are stated in Canadian currency—sterling and United States currencies being converted at the par of exchange.

Depreciation Accounting is applied to rolling stock owned by United States lines and Retirement Accounting is applied on the basis of original cost to other units of property on the System.

Subject to the foregoing and our report to Parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1938, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1938, are correctly stated.

GEORGE A. TOUCHE & CO.,

Chartered Accountants.

10th March, 1939.

Next is the consolidated profit and loss account, which is exactly the same, in that we discussed it yesterday. Shall it be read in the report?

CONSOLIDATED PROFIT AND LOSS ACCOUNT

YEAR ENDING 31ST DECEMBER, 1938

Debits:		
Debit balance transferred from income.....		\$54,470,996 92
Debits from retired road and equipment:		
Line abandonments and other capital losses.....	\$ 2,712,837 14	
Other property retired and not replaced.....	978,084 38	
		3,690,921 52
Miscellaneous debits		60,350 54
		<u>\$58,222,268 98</u>
Credits:		
Credits from retired road and equipment.....		\$ 613,640 92
Miscellaneous credits		581,594 95
		<u>\$ 1,195,235 87</u>
Line abandonments, etc., as above, charged to proprietor's equity..	\$ 2,712,837 14	
Cash deficit, contributed by Government.....	54,314,195 97	
		<u>\$57,027,033 11</u>

DOMINION GOVERNMENT—PROPRIETOR'S EQUITY

	Balance at 31st Dec., 1937	Change during year (See Page 18)	Balance at 31st Dec., 1938
Canadian National Railway Company, capital stock	\$ 18,000,000 00		\$ 18,000,000 00
Canadian National Railways Securities Trust, capital stock	269,325,705 67	\$2,712,837 14	266,612,868 53
Dominion Government capital expenditures for Canadian Government Railways.....	388,204,322 18	128,600 00	388,075,722 18
	<u>\$675,530,027 85</u>	<u>\$2,841,437 14</u>	<u>\$672,688,590 71</u>

Next is the consolidated income account. The same thing applies there.

CONSOLIDATED INCOME ACCOUNT

	1938	1937
Railway operating revenues.....	\$182,241,722 93	\$198,396,608 61
Railway operating expenses.....	176,175,311 78	180,788,858 09
Net revenue from railway operations.....	<u>\$ 6,066,411 15</u>	<u>\$ 17,607,750 52</u>
Railway tax accruals.....	5,954,197 44	5,635,173 84
Railway operating income.....	<u>\$ 112,213 71</u>	<u>\$ 11,972,576 68</u>
Rent from locomotives.....	102,074 89	111,918 91
Rent from passenger train cars.....	267,170 94	251,931 04
Rent from floating equipment.....	360 00	734 50
Rent from work equipment.....	124,198 88	149,481 33
Joint facility rent income.....	1,630,481 05	1,617,222 56
Hire of freight cars—debit balance.....	1,403,976 52	1,869,236 43
Rent for locomotives.....	31,307 83	29,431 52
Rent for passenger train cars.....	310,406 74	439,765 65
Rent for floating equipment.....	67,976 28	65,567 96
Rent for work equipment.....	7,235 31	12,504 89
Joint facility rents—debit.....	2,548,636 17	2,177,957 72
Net railway operating income.....	<u>\$ 2,133,039 38</u>	<u>\$ 9,509,400 85</u>
Revenues from hotel operations.....	3,144,674 00	3,045,798 57
Expenses of hotel operations.....	2,784,021 04	2,713,512 18
Taxes on hotel property.....	134,639 21	132,199 39
Net hotel operating income.....	<u>\$ 226,013 75</u>	<u>\$ 200,087 00</u>

CONSOLIDATED INCOME ACCOUNT—*Cont.*

	1938	1937
Income from lease of road and equipment.....	74,273 79	55,949 12
Miscellaneous rent income.....	900,219 75	828,281 57
Miscellaneous non-transportation property—credit.....	84,071 04	53,541 81
Dividend income.....	243,972 50	709,363 14
Income from funded securities.....	1,697,609 86	1,730,589 28
Income from unfunded securities and accounts.....	714,849 86	127,571 06
Income from sinking and other reserve funds.....	209,379 48	208,618 73
Miscellaneous income.....	327,056 88	63,008 75
Miscellaneous rents—debit.....	498,107 82	499,202 91
Miscellaneous tax accruals.....	152,413 03	184,149 52
Separately operated properties—loss.....	1,693,336 01	1,130,521 24
Miscellaneous income charges.....	1,019,805 86	430,774 92
Income available for fixed charges.....	\$ 1,019,255 19	\$ 11,241,762 72
Rent for leased roads and equipment.....	1,474,675 68	1,505,688 80
Interest on funded debt—public.....	49,839,022 58	48,888,545 56
Interest on Government loans.....	926,124 86	1,744,550 71
Interest on unfunded debt.....	153,093 69	192,903 29
Amortization of discount on funded debt.....	1,058,824 92	938,728 79
Total fixed charges.....	\$ 53,451,741 73	\$ 53,270,417 15
Income deficit transferred to profit and loss.....	\$ 54,470,996 92	\$ 42,028,654 43

Mr. WALSH: May I ask a question in connection with the income from unfunded securities and accounts? I see the amount is \$1,697,609.86.

The CHAIRMAN: What page?

Mr. WALSH: Page 13.

The CHAIRMAN: That is the income from funded securities.

Mr. WALSH: I do not understand that. Really I display my ignorance. I do not know what exactly is represented there.

The CHAIRMAN: Your ignorance shows that you are a good man.

Mr. HOWARD: What is the item?

Mr. WALSH: "Income from unfunded securities and accounts."

The CHAIRMAN: Yes.

Mr. WALSH: \$1,697,609.86.

Mr. COOPER: That is income from funded securities, Mr. Walsh. The income from unfunded securities is \$714,849.86.

Mr. WALSH: What is the reason for the increase? The income from unfunded securities in 1937 was \$127,571.06. In 1938 it was \$714,849.86. That is what caught my attention.

Mr. COOPER: You wish to know how the increase is caused?

Mr. WALSH: Yes.

Mr. COOPER: In 1938 we sold considerable property to the Toronto Terminals Railway Company. They had taken possession of the property in 1927 and the basis of the settlement was only agreed to at the end of 1938. We charged up to the Terminals Company the purchase price together with interest and it is such interest on the purchase price of the property sold to the Toronto Terminals Railway Company in 1938 which has caused the increase.

The CHAIRMAN: Is it carried?

Mr. WALSH: May I draw attention to this fact: The railway operating revenues and the railway operating expenses at the top of page 13 interest me. I refer back to the year 1936 and I find that the operating revenues were shown at \$186,000,000 and the operating expenses at \$171,000,000. This year I notice the operating revenues are \$182,000,000 and operating expenses \$176,000,000.

You see there is an increase in operating expenses with a decrease in operating revenues this year. When we look back to 1936 we see a larger operating revenue, \$180,000,000 as compared with \$182,000,000, but a smaller operating expense, \$171,000,000. I was wondering if there was any specific reason for that?

Mr. HUNGERFORD: The explanation lies in the fact that the 10 per cent reduction in wages was restored during that period, and also a substantial increase in the price of materials purchased.

Mr. DEACHMAN: Could we have now in that connection the wage cost for a unit of work done over the railway in a period of years? I am speaking of wage cost, and I am referring to operating account only.

Mr. COOPER: The amount of wages charged to operating expenses, you mean?

Mr. DEACHMAN: I should like to have it on a basis—if it is possible to do so—of a unit of work; that is, moving a ton of freight a mile, or its equivalent, whatever the unit of work is.

Mr. HOWARD: It is in the report.

Mr. DEACHMAN: I do not think so.

Mr. HOWARD: I think so.

Mr. DEACHMAN: Your railway unit of work is moving a ton of freight a mile, or its equivalent. That would have to be computed in connection with your passenger traffic in terms of the nearest equivalent that you can get it. It must cost three or four times as much to move a passenger mile as it does a ton of freight—I think it is five times the amount. If we could have a definite measurement in that way of the number of units of work divided into the operating payroll, we would have the amount of money that is required to pay a unit of work on the railway, the labour unit cost. I believe if we had this figure we would have a good idea of what the changes in the wage cost really amount to. It would be worth while as a basis of comparison. I refer to that particularly because in the last few years—not so much in the last few years but beginning back in 1921 and 1922—there has been a very great increase in the capital cost of the Canadian National Railways. That is, we have had heavier rails, increased efficiency in engines and an increase in operating efficiency. Your method of operating is now better than it was away back in the old days. The fact is that the total unit cost of operating is higher than it was; so I should like to get the unit cost some years ago from the standpoint of labour and the unit cost to-day. Then we would have some measure of what is the cause of the deficit on the Canadian National Railways.

The CHAIRMAN: Can you supply the answer right now?

Mr. FAIRWEATHER: No; we would have to prepare the statement. I gather the idea is that we should use a composite figure which might be called a traffic unit?

Mr. DEACHMAN: Yes.

Mr. FAIRWEATHER: It would consist of the revenue ton miles and the passenger miles converted to the equivalent by some factor.

Mr. DEACHMAN: Yes; it would be approximate that way because there is other work done by the railways, but still it would give some idea.

Mr. FAIRWEATHER: Such a statement can be prepared.

Mr. DEACHMAN: It would give you a measure of the cost which, while not exactly right, would be comparable. There would be a variable factor in it.

Mr. FAIRWEATHER: Yes.

Mr. DEACHMAN: It would be comparable from year to year and show us what the wage cost is, because frankly my contention is this: if your capital cost has not been a factor, the increased capital cost has not been a factor in reducing wage costs, then why go ahead with capital costs?

Mr. FAIRWEATHER: Well, of course, I can say that is a very sound approach and there is only one thing about it, the density of traffic comes in in the comparison of figures.

Mr. DEACHMAN: Yes; I was going to say that.

Mr. FAIRWEATHER: With that qualification, I can assure you that there has been an increase in the amount of transportation units done per man hour.

Mr. DEACHMAN: Quite, 40 per cent anyway.

Mr. FAIRWEATHER: It has increased very remarkably. The Canadian National Railways in common with practically all the large railway systems on this continent have increased their technical performance from year to year, and, of course, all that has found expression in increased traffic units per man hour under comparable conditions.

Mr. DEACHMAN: Yes.

Mr. FAIRWEATHER: That means under the same traffic density conditions.

Mr. DEACHMAN: But if the wage rate has gone up so as to absorb all the increased units of work; if labour is the one who takes all the increased units for his own benefit—

Mr. FAIRWEATHER: Well, of course, to that extent it would nullify the economy on the expenditure of capital and development of improved methods. A statement such as you have suggested can be prepared.

Mr. DEACHMAN: I should like to have it; and we will particularly take the base year as 1926. It would not be a great task to prepare it.

Mr. FAIRWEATHER: No; we can do it in traffic units, subject, of course, to these qualifications, as you know, as being approximate.

Mr. DEACHMAN: I believe if you put down in connection with that the total units of work—

Mr. FAIRWEATHER: Yes.

Mr. DEACHMAN: —then we would have some idea, because I admit of course the factor of density of traffic is really an important factor.

Mr. FAIRWEATHER: Yes, it shows up. If you make an adjustment for that it shows quite clearly the increasing basic inherent efficiency of the man hour; and you want to know on the one hand on the man hour basis and also on the dollar wage basis, what it amounts to.

Mr. DEACHMAN: Yes; I want to see the additional number of units that man performs. Mind you, the hours of wages and the hours of labour have been reduced in that time. If you took the number of units of traffic moved in a year the figures would not reveal what it was per hour; there would be a complication there.

Mr. HUNGERFORD: Practically no change in the hours of work.

Mr. DEACHMAN: Since 1926? Were the regulations changed at that time?

Mr. HUNGERFORD: There will be a fluctuation in certain respects from time to time but I do not think the change has any material effect. There has been no great change.

Mr. DEACHMAN: That took place when, 1920?

Mr. HUNGERFORD: Yes.

Mr. HANSON: May I ask a question? I wonder if somebody would give me the value of the percentage of increase in the operating expenses between the—

The CHAIRMAN: Will you repeat that? The reporter did not get it.

Mr. HANSON: I gave the question to somebody. What is the percentage of the decrease in the operating expenses compared with supervision of costs, services and labour, outside labour?

Mr. ARMSTRONG: We have here some figures comparing 1938 with 1930. The first classification is the employees classification, and it is called "executives, officials and staff assistants." That is the top.

Mr. HANSON: Yes.

Mr. ARMSTRONG: The payroll in 1938 shows a reduction of approximately 44 per cent below 1930. All other employees, exclusive of that category show a reduction of 26 per cent.

Mr. HUNGERFORD: In point of number?

Mr. ARMSTRONG: No, in point of total payroll. The average compensation of employees is the next heading. First, executives, officials and staff assistants show a reduction of approximately 9 per cent, and the average wage of all other employees shows a reduction of 1·1 per cent.

CANADIAN NATIONAL RAILWAYS

EMPLOYEES AND THEIR COMPENSATION

1930 Compared with 1938

Total payroll	1930	1938	Percentage of decrease
Executives, officials and staff assistants.....	\$ 5,414,203	\$ 3,041,850	43·82
All other employees.....	154,566,791	113,484,258	26·57
Average earnings of employees			
Executives, officials and staff assistants.....	5,950	5,432	8·7
All other employees.....	1,543	1,526	1·1

Mr. HANSON: Total labour?

Mr. ARMSTRONG: That is what you would call everybody but the senior group of officials.

The CHAIRMAN: Mr. Deachman, will you be satisfied if the answer to your question is prepared and read in the report?

Mr. DEACHMAN: Quite.

Mr. HANSON: I have another question to ask. I should like to ask if you have any distinction between wages and salaries paid to superintendents and higher officials, and superintendents down the grade, the ordinary section man? I presume it would mean the ordinary section man. I should like an answer to that question. What I am trying to get at are the salaries of officials and superintendents and those of the others we call ordinary labours. We have officials and superintendents; below that are what are called outside workers or common workers.

Mr. ARMSTRONG: I think the question as it was answered would not go down quite as far as superintendents; but we could file an answer which would include superintendents, excluding them from the balance in this other statement.

Mr. HANSON: Could we have that?

Mr. ARMSTRONG: We could have that prepared.

The CHAIRMAN: Then the statement will be prepared and read into the report.

Mr. BARBER: What I was going to ask was in connection with this statement on maintenance of way and structure expenses, maintenance of equipment expenses, traffic expenses, transportation expenses. If you will look at that you will find that the amount for superintendence in each case is increased. Could we have an explanation of why, with the decreased revenue, in each case the superintendence is increased?

Mr. COOPER: The wage account generally was affected by the restoration to basic rates which took place in 1938. There was, of course, a decrease in the man hours in the general maintenance of way group, and also in the maintenance

of equipment and transportation groups. But in the superintendence accounts, which are more or less stable in relation to the variation of traffic, all that happened in 1938 was the restoration of basic rates; and therefore you get an increase in that particular account.

Mr. BARBER: What do you mean by a restoration of basic rates?

Mr. COOPER: There were certain reductions in effect, which went into effect in 1931; they continued until some time in 1937, or finishing in April, 1938. The basic rates have been restored.

Mr. YOUNG: With regard to the statement of Mr. Hanson, I think the answer was given from the year 1930. I should like to suggest that it go back several years before that, say even from 1921. The reason I ask that is that a good many men, railway men—men who served the railway for a long number of years—are under the impression that the executive end of it, and going down to perhaps as low as superintendents or as high, has been increased very materially in comparison with the number of men who were in the category below that. There may be nothing in their contention; but I thought it might be well to investigate the matter, because that has been stated very freely in certain quarters.

Mr. HUNGERFORD: That the official staff has been increased?

Mr. YOUNG: The executive staff.

Mr. ARMSTRONG: The figures, the earliest we have, are in 1923, the corresponding period to the figures given in the answer to Mr. Hanson's question. For 1923 the executive officials and staff assistants—

Mr. YOUNG: May I ask what you include in that, just in order to be clear?

Mr. COOPER: General officers of the company.

Mr. MCKINNON: Does that go down as far as general superintendent?

Mr. COOPER: Including general superintendent.

Mr. MCKINNON: But not below?

Mr. COOPER: It would not include division superintendents.

Mr. ARMSTRONG: The amount of the payroll there is \$5,489,000; in 1930 it was \$5,414,000; in 1938 it was \$3,042,000.

Mr. BARBER: What was it about 1935?

Mr. ARMSTRONG: Practically the same as 1938; that is, \$2,927,000.

Mr. HANSON: A change was made.

Mr. ARMSTRONG: You must remember that there was a deduction in effect in 1935 that was not in effect in 1938. It is not really an increase in payroll. That is an increase in salary.

Mr. YOUNG: That is in dollars and cents. What about the actual number of persons?

Mr. ARMSTRONG: In 1923, 1,202; in 1930, 910; in 1938, 560.

Mr. HANSON: The change was made in 1932.

Mr. ARMSTRONG: The big change is between 1930 and 1938, yes.

Mr. YOUNG: With regard to superintendents, may I ask if they had the same number of men on the payroll to supervise as they had in 1923—the first figure you gave—or did they have more?

Mr. ARMSTRONG: More at the present time.

Mr. YOUNG: More at the present time?

Mr. ARMSTRONG: Yes.

Mr. YOUNG: And the staff surrounding the superintendents is not greater than it was in 1923?

Mr. ARMSTRONG: It would be less.

Mr. HUNGERFORD: It would be less?

Mr. ARMSTRONG: Definitely.

Mr. FAIRWEATHER: Very considerably less.

The CHAIRMAN: Gentlemen, we are putting the cart in front of the horse, I am afraid. We are discussing at the present time a summary of operating expenses. Shall we consider the details of all those accounts mentioned at the bottom of the page such as maintenance of way and structure, maintenance of equipment, traffic, transportation, miscellaneous operation, general, transportation for investments? Instead of going into all the details contained on pages 15, 16 and 17, I think we should consider the main headings, as we have already discussed part of the whole thing. Therefore, I will ask Mr. Armstrong to enumerate those five, taking first of all maintenance of way and structures, details on page 15. Are there any questions? On page 14 you will see a summary of operating expenses, maintenance of way and structures.

Mr. WALSH: Is there anything under that heading that would show the cost of operating the purchasing and store keeping department, or does that come in that?

The CHAIRMAN: Part of it.

Mr. HUNGERFORD: These figures are all incorporated in it.

Mr. WALSH: Or is it included in some of this account on maintenance of way and structures?

Mr. COOPER: The cost of the purchasing and store keeping department is first charged to a clear account, and then it is issued out as part of the cost of material, on a percentage basis; that is to say, if store expense is 5 or 6 per cent of the total purchases, we add 6 per cent to our material issues and in that way each material account is charged with that proportion of store expenses.

Mr. WALSH: You do not know what the actual cost of the purchasing department is?

Mr. COOPER: I have the information, but I do not have it here.

The CHAIRMAN: The first item is maintenance of way and structures. Is it carried?

Some Hon. MEMBER: Carried.

The CHAIRMAN: Carried. The next item is maintenance of equipment, also on page 15. Is it carried?

Mr. WALSH: I wish to ask a question with regard to the item of superintendence on pages 15 and 16. Is there a certain proportion of headquarter's expense charged against each of these items of superintendence?

Mr. COOPER: Yes, but not very much at headquarters. In maintenance of way and structures, you would have the chief engineer and his office staff; and in maintenance of equipment, you would have the chief of motive power and his staff. But, generally, this expense is either regional or divisional.

Mr. WALSH: Where would headquarter's expense come? Under what item would it come?

Mr. COOPER: Well, for example, the expense of the chief of motive power is in the equipment superintendence account, but it is a relatively small proportion of that account. The main expense is what originates with the regional staffs.

Mr. WALSH: I have a letter here to which I want to direct attention. I notice, under maintenance of way and structure expenses, that rails, ties and other track material are mentioned. There is a person whose name I do not know—I have had hard work deciphering his letter—who was making some inquiries about a contract that was let. If I am asking for something that I should not ask for, or for information that should not be given, just say so

and that is the end of it. He says something about a contract which was calling for 27,000 cedar pegs—whatever that means—of 8 feet, 1,000 of 9 feet and 1,600 of 12 feet for which he tendered; then he gives the price of his tender. He did not get the contract, but he says he knows that his price was lower than the price of the tender that was accepted. His price for 1,650 of 8 feet was 14 $\frac{3}{4}$ cents each; his price for 5,000 of 8 feet was 18 cents. He says he knows these could not possibly be made under the 15 cents. So he was wondering why he did not get the contract for those; and his suggestion is, of course: Was there any political influence involved in the placing of this contract?

Mr. YOUNG: Does he say that?

The CHAIRMAN: I could show you about thirty, if you want to see them.

Mr. WALSH: He says that in the letter here. I do not know the man; I never met him. His letter is written so that very few people could read it; I had to get an expert to decipher it for me. Apparently he is a man who gets out that kind of thing, and has had the contract in previous years.

Mr. KINLEY: I think he was basing it on the experience of previous years when the tories got all of the contracts.

Mr. WALSH: Is there any possibility of securing any information on that?

Hon. Mr. HOWE: You set up a very bad precedent, because I could show you several thousands of those letters. We do not give that information.

Mr. WALSH: All right.

Hon. Mr. HOWE: We would do nothing else, if we did.

Mr. WALSH: I have discharged my duty to the person who wrote the letter.

Mr. DEACHMAN: Every M.P. gets letters.

The CHAIRMAN: Is maintenance of equipment carried?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Carried. The next is traffic expenses.

Mr. DEACHMAN: I want to ask something about traffic.

The CHAIRMAN: On page 16 you will find the details.

Mr. HOWARD: I want to put a question to Mr. Cooper. In your operating revenues your freight dropped from \$151,000,000 to \$137,000,000; your passengers dropped from \$18,944,000 to \$18,096,000. What is the percentage of the drop in those two? I was quite surprised. I thought the passengers had dropped away down.

Mr. HUNGERFORD: If you look at the text of the report at the front, you will find those figures, I think.

The CHAIRMAN: Yes, I think they are there; and they were discussed yesterday.

Mr. HOWARD: All right. I just wanted to get that.

Mr. DEACHMAN: I should like to ask this question.

Hon. Mr. HOWE: Freight decreased.

Mr. HOWARD: Yes.

Mr. COOPER: Freight is down 9·1 per cent; passenger revenue is down 4·5 per cent; express is down 5·7 per cent; telegraph is down 8·14 per cent and other revenue is down 2·96 per cent.

Mr. HOWARD: So your freight is down the most?

Mr. COOPER: Yes, 9·1. The revenue as a whole decreased 8·1 per cent.

Mr. DEACHMAN: Some years ago, when I was here in a somewhat different capacity, I remember a sharp criticism of the Canadian National Railway in regard to those traffic expenses. Traffic expense, of course, represents the cost of getting business, does it not?

Mr. HUNGERFORD: Yes.

Mr. DEACHMAN: I should like to know how traffic expenses measure up compared with what you have on other railways. Take, for instance, comparable railroads in the United States or the C.P.R. I know there is a difference in the method of accounting in traffic, but I should like to get an idea how you measure that percentage on earnings—what your traffic ratio would be as against earnings.

Mr. FAIRWEATHER: You could express it in that way, yes. We have the figures here, I think, if we can lay our hands on them.

Mr. DEACHMAN: Is that not down materially from last year?

Mr. FAIRWEATHER: Of course, our traffic expenses have generally been in line with the class one roads of the United States. We have never been out of line with class one roads in the United States.

The CHAIRMAN: Have you got those figures?

Mr. ARMSTRONG: Yes. The figures here are for 1938. This is a percentage of the total operating revenue. Canadian National, 2·82 per cent; average of all class one United States roads, 2·87 per cent; Canadian Pacific, 5·17 per cent.

Mr. DEACHMAN: Theirs includes steamships?

Mr. ARMSTRONG: Theirs includes steamships, yes.

Mr. DEACHMAN: They are not comparable.

Mr. ARMSTRONG: No.

Mr. DEACHMAN: Have you got one of the great roads in the States like the Northern Pacific or the Great Northern?

Mr. HUNGERFORD: That would not be comparable, because we operate in the east and they do not do that.

Mr. DEACHMAN: No.

Mr. FAIRWEATHER: I think we are more nearly comparable with the class one roads, on the average.

Mr. DEACHMAN: The class one roads would include a number of considerably smaller roads. You would have to have that, anyway.

Mr. FAIRWEATHER: Yes, but it averages up. I would say that is about as safe a comparison as any.

The CHAIRMAN: Transportation expenses. Carried.
Miscellaneous operating expenses.

Mr. KINLEY: Mr. Chairman, in connection with dining and buffet service the figures for 1937 are \$1,215,313.91. The figures for 1938 are \$1,181,190.56, showing a little less expense, a little more business, but still there is a great discrepancy between the revenues and expenses. In 1937 the revenue was \$771,938.79, and in 1938 it was \$773,471.63, leaving a deficit of \$400,000 or \$500,000 in connection with dining service. What do they include in the expenses, the hire of the car and the cost of hauling the equipment, or is it just the food?

Mr. COOPER: No, there is no charge in there for hire of the car or hauling the car. It is labour and supplies.

Mr. KINLEY: Just operating costs?

Mr. COOPER: The inside costs of the dining car.

Mr. KINLEY: The sleepers do better than that, do they not?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: They run at a profit, but in connection with the dining car service they buy food and sell it and suffer a loss. There must be some reason. What is the experience of the C.P.R.? Do they lose on their dining car service?

Mr. COOPER: I have no doubt they do. I think every railroad does.

Mr. McKINNON: Do most of the railroads not charge up the haulage of their dining cars?

Mr. COOPER: Not to this account.

Mr. McKINNON: That is not figured in?

Mr. COOPER: No; that is a transportation expense.

Mr. KINLEY: If you added that in the loss would be tremendous.

Mr. HUNGERFORD: The items that go into this account are specified by the Interstate Commerce Commission.

Mr. KINLEY: This means that you buy food and serve it and lose nearly half a million dollars in serving it to the public.

Mr. HUNGERFORD: It is one of those necessary services that costs money.

Mr. KINLEY: I know, but the thing should pay.

Mr. HUNGERFORD: The only way to make it pay would be to increase rates.

Mr. KINLEY: You did better last year than the year before?

Mr. HUNGERFORD: Yes. I think we have experimented in every conceivable way in respect to rates for meals and services. We have tried to carry on experiments with almost every suggestion that has been made in past years, and the result does not vary a great deal.

Mr. KINLEY: What cost do you put on the meal? For instance, a dollar meal would cost what?

Mr. HUNGERFORD: I could not tell you.

Mr. KINLEY: You have a limit on them; if you go over a limit you check them up, do you not?

Mr. HUNGERFORD: Yes, we do; but I cannot tell you what the actual price of the meal would be.

Mr. KINLEY: No, no, but if the meal was over so much, you would know it. They do that in the hotels, they do that in the Chateau.

Mr. HUNGERFORD: It is very closely supervised by the superintending staff of the department, of course.

Mr. COOPER: We have a very detailed analysis of this account but unfortunately we do not have it here.

Mr. KINLEY: You think the loss is unavoidable in the dining service?

Mr. COOPER: Yes.

Mr. FAIRWEATHER: It is unavoidable if you desire to have dining car service on a train, but, after all, sir, when you try to furnish first-class restaurant service on a moving train under conditions that are applicable, and try to serve meals with the load factor that you get on the train movement, you cannot help having very high costs.

Mr. KINLEY: You are not paying for the movement of the train.

Mr. FAIRWEATHER: I am not saying the movement of the train; but if you went into one of our dining car departments, if you went into the steward's department in a dining car and saw the conditions under which the waiters and chefs work, you would realize, as one must realize, that the cost of performing the service under those conditions must necessarily be higher than it would be if you were not on a moving train.

Mr. KINLEY: I have been through them; they are well planned.

Mr. FAIRWEATHER: It is well run and well planned. But there are limitations of space; then on top of that the ability to serve meals is limited as compared with an hotel or restaurant in a fixed location. You have got to have your passengers on the train, you have to have the train there at meal time, and everything like that. While that is perfectly true of a long-distance

through train, it is not true of some of the inter-city runs in which you have a great deal of deadhead mileage. That is, you have to provide a crew, and you may have to pay the crew a whole day's pay when they only serve one meal for the convenience of the public. The cost of the whole day's pay has to be met.

Mr. KINLEY: Canada is a country of long distance.

Mr. FAIRWEATHER: Decidedly.

Mr. McKINNON: Is not the answer this; that if you were to charge the price you should charge to make it a success the public would not use the service?

Mr. FAIRWEATHER: It is a convenience for the travelling public, and I tried to make that plain. If you wish to serve meals on trains and you attempt to charge a price for the meal which covers the cost, nobody would take it.

Mr. KINLEY: Oh, I do not know about that.

Mr. McKINNON: You have tried that out, have you not?

Mr. FAIRWEATHER: Well, I have figured it out and I know what it would be. It would be prohibitive.

Mr. KINLEY: Take restaurants on the line, according to your figures most of them must be concessions to somebody.

Mr. FAIRWEATHER: They are profitable.

Mr. KINLEY: Of course you have those all over and they make a profit, but you have only \$10,000 worth of business.

Mr. FAIRWEATHER: I can only say, sir, that the cost of operating a dining service on a train is vastly different from the cost of operating a dining service in a restaurant.

Mr. McKINNON: Why do you lease out all those dining services.

Mr. FAIRWEATHER: At the stations?

Mr. McKINNON: At the stations.

Mr. FAIRWEATHER: It is considered good management to do it.

Mr. McKINNON: Well, do those institutions not make money?

Mr. HUNGERFORD: Not very much.

Mr. McKINNON: They should at the price they charge.

Mr. KINLEY: It is very reasonable.

Mr. McKINNON: If you buy a soft drink you pay ten cents while at other places you have only to pay five cents. That is one small item.

Mr. KINLEY: Absentee management is never as good.

The CHAIRMAN: The item of miscellaneous operating expenses is carried. General expenses.

Mr. HANSON: Before we go any further I have two more questions I should like to ask but I do not know whether they are proper questions.

The CHAIRMAN: Go ahead.

Mr. HANSON: I should like to know the total number of employees on the Canadian National system who are officials above the rating of general superintendent. Second, the total number of other employees. Third, the number of persons in the system drawing \$3,000 or more per year in Canada and outside of Canada. Are those proper questions to ask?

The CHAIRMAN: Of course, we have always objected in the past to giving the salaries of the high officials.

Mr. HANSON: I do not want any names.

The CHAIRMAN: I do not think there is any objection. Suppose, Mr. Hanson, they prepare a report and read it into the record at the next meeting, would that be satisfactory?

Mr. HANSON: Satisfactory.

Mr. YOUNG: What is the objection, if it is asked for, of giving the salary of any person in connection with the railroads?

The CHAIRMAN: This matter has already been brought up to my own knowledge here in this committee. As a matter of fact, a sub-committee of the committee was appointed to look into this question, and the management always claimed it was unfair for the Canadian National to give that information to the public that it should be given confidentially.

Mr. YOUNG: I was not going to bring the question up, but if anyone is going to assert that we have not the right to ask for that information it will precipitate quite a discussion in this committee to-day, because I am going to assert the right at any time, although I have decided that I am not going to ask for it. If anyone says we have not the right to ask and we have not the right to get such information, if anybody is prepared to make that statement—

Hon. Mr. HOWE: Everyone will be very silent on that point.

Mr. WALSH: I take the opposite point of view to Dr. Young on that question. I do not think the management of the Canadian National should be asked to give the salaries of even the office boys connected with that railway. Any information that is given to this committee is immediately public information. And I do not think it is fair to the Canadian National to ask them to develop information of that nature. That is one reason why I was not very insistent this afternoon in asking for information concerning a contract. I do not think it is fair to question them in connection with the granting of contracts or anything of that nature. We have appointed a board of directors, and officials have been appointed to operate the Canadian National, and we should expect them to operate that railway efficiently and effectively in the interests of the people of Canada. They cannot do that if this committee is going to ask for information along the lines suggested by Dr. Young. At least, I do not think so.

The CHAIRMAN: He has not suggested it.

Mr. YOUNG: I suggested that if anyone says we have not the right then I am going to say something.

Mr. WALSH: I want to register the thought that I do not think this committee should persevere in even entertaining the idea that they have that right. I think that is a reasonable protection that we should give to the officials of the Canadian National.

Mr. YOUNG: Mr. Chairman, I am not going to ask for it but I am going to say this: That there is not a salary, from the salary of the prime minister down, in any part of the civil service that is not known or can be known. There is not a salary from the salary of the premiers of the provinces to the salary of the last man in every province that is not known. The same is true with regard to every municipality. If this is going to be a government-owned institution and anyone is going to tell me that we have not the right to ask for that information, well, I say, let him say so, or let any of the officials say so, then we will discuss the matter.

The CHAIRMAN: The officials have always taken the stand that if this committee desired to have that information they were compelled to give it.

Mr. YOUNG: Exactly.

The CHAIRMAN: But what has been done in the past is this: That a sub-committee of this committee—I do not remember exactly whether it was in 1932 or 1933—was appointed to inquire into those details, and the details were given to this committee in confidence and were never published. Those are the facts.

Mr. YOUNG: That is all right.

Mr. McKINNON: You have the total number of employees.

Mr. HANSON: I am not asking for any information concerning individuals; I am asking for the total.

Mr. DEACHMAN: It is not a matter of right that is involved, it is a matter of the advisability. We are concerned with the operating efficiency of the C.N.R. considered in relation to the factors of traffic density and operating conditions. If we catch them there I think it would be too bad for them.

Mr. KINLEY: Mr. Chairman, how are the salaries of railway officials determined, by themselves?

Mr. HUNGERFORD: Oh, no.

Hon. Mr. HOWE: By the board of directors.

Mr. KINLEY: Do you have any say in them?

Hon. Mr. HOWE: No, but we have the privilege of appointing the seven directors who determine the salaries.

Mr. KINLEY: They decide what the salaries will be and you fix their salaries?

Hon. Mr. HOWE: Yes, we fix the salaries of the directors and of the chairman of the road; the other salaries are fixed by the directors.

Mr. KINLEY: This matter of salaries is a rather important matter.

Hon. Mr. HOWE: We have a very tough board of directors. I am inclined to think they are too tough.

Mr. HUNGERFORD: I have no objection to advising Mr. Kinley that the procedure is this: The salary of anyone between \$3,000 and \$6,000 a year is determined by myself, but each move has to be reported to the directors. If there is any adjustment of salary over \$6,000, that has to be determined by the board of directors.

Mr. KINLEY: I suppose there are wages over \$3,000 in some instances?

Mr. HUNGERFORD: Yes; that does not apply to schedule provisions.

Mr. KINLEY: Mr. Hungerford talked of salaries over \$3,000.

Mr. HUNGERFORD: I am speaking of salaries—

Mr. KINLEY: I might as well be frank about this: The first thing a company in such a position does is to take care of salaries that are paid.

Hon. Mr. HOWE: That is done pretty thoroughly on the Canadian National. Slashes were much more severe in the head office than anywhere on the line.

Mr. KINLEY: It is just as well to keep that in the forefront.

Mr. DEACHMAN: Competition also enters into it.

Mr. KINLEY: I do not think there is much competition to it, if the old fellows want to get out and give the young fellows a chance to come up. Bring the young fellows along and give them a chance.

The CHAIRMAN: Now, gentlemen, I want to ascertain if you desire to read into the record all of these details or simply the summaries. I think the summaries would be quite sufficient. We all have a copy of the report. Coming to page 18, property investment accounts; we have gone through that. Shall the item carry?

Carried.

Transactions from the year 1930 affecting proprietor's equity. You have before you at the present time a report entitled, "Canadian National Railways Security Trust." Although Dr. Clark is unable to be here, Mr. Cooper has the figures in hand, and I would think it advisable to take this report and deal with it while we are on this item. The whole thing is included in the figures on the balance sheet. If Mr. Cooper would read the balance sheet I think that would dispose of the whole thing.

Mr. WALSH: We had all of this read last year.

The CHAIRMAN: Yes. I do not see any necessity for doing it. Do you wish this published in the report or simply approved by this committee?

Mr. WALSH: I would suggest we simply approve.

Mr. HANSON: I would like to ask the minister one question.

The CHAIRMAN: We are on transactions during the year affecting proprietor's equity.

Mr. YOUNG: I was going to ask about this question of interest. I notice a lot of 6 per cent interest all through this; are we still paying 6 per cent interest on everything?

Mr. MCKINNON: You bet you are.

Mr. COOPER: We are not now accruing interest on these government loans.

Mr. YOUNG: Is there anyone paying 6 per cent.

Hon. Mr. HOWE: We are not paying these now, they are all held by the Securities Trust, and they are simply held for any possible value they may have. The notes are not being paid, they are simply dormant.

Mr. YOUNG: Perhaps I should have mentioned this yesterday, but it will come in here just as well; are we still paying anything at the rate of 6 per cent on these perpetual bonds, are they still on a 6 per cent basis?

Hon. Mr. HOWE: That is, of course, another item. The next page shows the interest on securities.

The CHAIRMAN: Is the item carried?

Item agreed to.

The CHAIRMAN: On page 19: Funded debt—principal and interest:

Mr. HANSON: I want to ask the minister a question about this item of \$24,000,000, some of which is carrying 6½ per cent, and there are a few issues retired. I am glad to know that they are getting less and less each year. I would like to know if anything has been done towards reducing the 6 per cent issue?

The CHAIRMAN: This question was brought up last year.

Mr. HANSON: These are due in 1946; \$24,000,000, interest charge 6½ per cent. The interest this year amounts to \$1,575,470. Is anything being done to try to reduce that amount?

Mr. COOPER: Nothing can be done prior to maturity.

Hon. Mr. HOWE: Unfortunately, that is guaranteed by the Dominion of Canada. It is a guaranteed security and I do not think anything can be done.

Mr. VIEN: For the time being. They are in the hands of the public or the government, which?

Hon. Mr. HOWE: That is in the hands of the public.

The CHAIRMAN: The committee last year decided we would call the attention of the Minister of Finance to this condition and ask him to take whatever steps might be possible to adjust the matter. I understand they have taken the matter in hand, but to what extent they have made progress I am not in a position to say. It is not the officials of the railway who are dealing with this at all.

Mr. VIEN: I understand they buy on the market whatever is available?

Hon. Mr. HOWE: Yes.

Mr. VIEN: What Dr. Young had in mind would be to adopt a compulsory method of converting.

The CHAIRMAN: No, he does not go that far.

Mr. YOUNG: It was really in my mind though.

The CHAIRMAN: I thought I was practically repeating Dr. Young's statement of last year that he did advise that we should recommend to the Minister of Finance in our report that steps should be taken to adjust matters as fast as could possibly be done.

Mr. YOUNG: Practically. But I see the word "perpetual" here. I am just wondering—5 per cent perpetual. I have heard a good deal said about the fact that when we were going to do certain things that the word "repudiation" is usually attached to them. I hope that any parliament of Canada which could pass a Farmers' Creditors Arrangement Act would not be too bashful to suggest that something could be done in a matter of this kind. Every time I read this report I must say it is very difficult for me to agree that if some person at some time made such a stupid arrangement that this is going to go on for this generation, and as many other generations as may follow, still paying 5 per cent and nothing can be done about it. I think that is taking the wrong view. This is something which should be brought to the attention of whatever authority is proper in order that the matter would be immediately remedied. I cannot believe that where there is a wrong there is not a remedy.

Mr. WALSH: I agree with what Dr. Young has to say, and I do not think we are fulfilling our obligations to the public of Canada in perpetuating this perpetual investment. I recognize the fact that no doubt these are held by estates, being passed on from generation to generation with a presumed income over the years. I think, however, the matter could be satisfactorily adjusted by those holding bonds at the present time if they were advised that within a period of say ten years these bonds are going to be redeemed or replaced by the government of Canada. I do not think there could be any charge of repudiation on that, and it would give those holding these bonds an opportunity of readjusting their conditions and to invest their money in securities that would give them an equal income if they so desired, or to hold them until such a time as the period expired and the dominion government would take control. I will put that forward as a suggestion and I want to be fair to those who hold the bonds and those who are dependent on the income from those bonds for their livelihood. I recognize certain claims, and I would not like to serve notice on them that we are calling these in and calling them immediately, but I would serve notice on them that within a period of so many years these bonds are to be redeemed or renewed at the prevailing rate of interest, and that gives them opportunity to adjust themselves.

The CHAIRMAN: That is the recommendation we made in 1931.

Hon. Mr. HOWE: Unfortunately we are pressed on both sides on account of the Grand Trunk agreement. These particular bonds are part of the Grand Trunk agreement. We were forced to agree, under the terms of the arbitration, that we would pay these bonds to maturity, and on certain other bonds we were told we didn't have to pay. Now, you have two claims; some argue that we should pay these bonds that we don't have to pay on, and others are arguing that we should not pay on the ones which the arbitration said we must pay on.

Mr. WALSH: I quite agree with your contention, Mr. Howe. I do not know how my colleague thinks. I think, of course, the whole thing is a mess. When they took over the Grand Trunk and so on, it should have gone into liquidation and through the courts.

Hon. Mr. HOWE: I quite agree.

Mr. WALSH: Then the government could take over in the approved manner. The way the thing was done has left us with this added to our damage suit.

Hon. Mr. HOWE: I know.

Mr. WALSH: I want to find a way of eliminating this thing.

Hon. Mr. HOWE: You would not only have to call your bonds, you would have to repudiate your agreement.

Mr. WALSH: I would repudiate it.

Mr. VIEN: I find myself in agreement with Mr. Young and Mr. Walsh. I know the objection that has been put forward in previous years, that these items we are discussing are just a further expedient by the Hon. the Minister; but I think the conditions that obtained when the Grand Trunk was acquired and the agreement was arrived at in 1919—if I mistake not—have altogether changed. I know that the Department of Finance objected to this being done, because those who had invested in the perpetual bonds would coonsider it a breach of faith. I believe that those apprehensions are ill-founded. The world has gone apace in the last 15 or 20 years in finance as otherwise. Some 25 years ago if it had been suggested that Great Britain and France would default on the payment of their war indebtedness to the United States and other countries it would not be believed, and yet the world-wide depression of 1929 and the aftermath have justified these countries who generally respect their word and do not default on their investments—have justified these two countries to consider the situation as of to-day; and I believe that if we passed a law in parliament much along the lines suggested by Mr. Walsh—I would not indicate ten years, ten years is too long a period—I would say five years—it would have support. Of course, you could not do it except with legislation. But I would move, or second, if anybody is willing to move, as a part of the report of this committee, that we should advise the government to enact legislation to provide that within a period of years these bonds will be retired.

The CHAIRMAN: We did that last year.

Mr. WALSH: We didn't go quite that far.

Mr. VIEN: I don't recall that, I am speaking from memory. I don't recall that we did that last year.

Mr. HANSON: It was just suggested.

Mr. VIEN: I think it should be embodied in our report as a legislative suggestion; praying the government to introduce legislation to provide for the redemption of these bonds within a period of years at terms and conditions to be set out.

The CHAIRMAN: Would you make a motion to that effect?

Mr. VIEN: I would, certainly.

Mr. WALSH: Let me second that. I am on the other side of the house to these gentlemen. I want it to go to the house like a unanimous recommendation from the several sections of public opinion represented on this committee.

Mr. VIEN: If Dr. Young cares to propose it, it doesn't matter to me.

Mr. YOUNG: No, it is quite all right.

The CHAIRMAN: It is moved by Mr. Vien and seconded by Mr. Walsh that the committee in its own report advise the government that it is the desire of this committee that action and legislation if possible along the lines indicated should be taken.

Mr. VIEN: I would say, Mr. Chairman, that in the opinion of this committee legislation should be introduced to provide for the redemption of the five categories of perpetual bonds indicated on page 19 of the annual report of the Canadian National Railway system for the year ending December 31, 1938, under such terms and conditions as the Department of Finance may deem advisable.

The CHAIRMAN: Shall the motion carry?

Mr. DEACHMAN: Before this matter is dealt with I should like to ask first, what the Canadian National Railway pays now on money which it borrows? These are guaranteed by the government on a guarantee of the dominion government. I should just like a computation of the saving of interest which will be brought about by this action of ours. The reason I ask this question is that so far as I can recall this will be the first formal resolution of a committee of parliament or the Canadian House of Commons to give any intention of direct action in the way of repudiation. When that is done we can make up our minds that it will not be the end of such conduct; and I want to know in the words of a good French phrase, how much we are paying for our aprons in that way, because when we have let the world know that the Canadian government has definitely set aside a contract, even if a somewhat stupid contract, entered into as far back as 1875, and has done it for a relatively paltry sum, then I think it will have some effect on our credit and it ought to be very carefully considered. I go back to my point. Let us know the cost of money now, and what we will pay, the saving that will be made by our act of repudiation?

Mr. VIEN: Would you think that the financial world would be shocked at the idea that the Canadian people are converting into redeemable bonds, perpetual bonds issued so long ago, when conditions have changed? If it were something unreasonable I am quite sure that we should live up to our undertaking. For instance, if these were 25-year bonds and we wanted to redeem them in 5 years, it would be then, at least, within the possibility of the Canadian people to pay; but when you come to perpetual bonds, I believe the financial world would not consider it a breach of faith but a redress of an intolerable situation. I do not believe that it would have a detrimental effect on our credit because I think the financial world would hold that we were doing the only sensible thing that a parliament like the Canadian parliament could do in such circumstances. I would draw a line between breaking faith and a breach of contract and an act such as I suggest.

Mr. HOWARD: Mr. Chairman, I for a good many years advocated exactly what Mr. Vien and Mr. Walsh have said, but I am changing my mind on the situation.

Mr. DEACHMAN: That is good.

Mr. HOWARD: Let us not forget that we are now in a period of depression when money is exceedingly cheap. If things work out as we hope they are going to, the sooner we get back to high price money the better it will suit me and for this reason, that at least then we are into prosperous times when we have to pay high prices for money. Suppose we were to do as was suggested, repudiate, practically speaking, by giving a notice that on and after a certain date we are going to pay off these bonds. That is a definite repudiation on the part of the dominion government. Furthermore, the present finance minister, I know, would not agree to it. But suppose it is done and you want to raise money in the money markets of the world. It is going to stagnate our position more than the three and half million dollars you are going to save on that item. For that reason I should not like to see that motion carried. I think a better course is exactly what we are doing. We voted in the house the other day an amount of money and put it at the disposal of the Minister of Finance so that whenever these bonds are offered—and there are always some offered—they are purchased and taken out of the market and new ones put in their stead at a lower rate of interest.

Mr. VIEN: Would you think—

Mr. HOWARD: Let me ask you this question. Suppose money went back to 6 per cent and you had repudiated and reduced this to 3, would you favour putting it back to 6—

Some Hon. MEMBERS: No.

Mr. HOWARD: That is your answer. Let us be fair to ourselves and everybody else.

Mr. VIEN: Would you think that the Canadian people or the Canadian investors would resent this being done?

Mr. HOWARD: Surely. If you were taking that stand on all things, it would be different. For instance, the small property holders who have had the toughest time of anybody to pay their taxes and carry their property. Your principle is exactly the same. I insisted back in 1930 and 1931 that we try to reduce the mortgage rate of interest to small property owners. The cry was, oh, no, we cannot do it. Now, at this stage of the game, I am entirely against the repudiation of a debt contracted under those conditions.

Mr. DEACHMAN: There is one thing I want to point out. The repudiation of the United Kingdom debts to the United States has been brought up here to-day. You therefore see its significance. Once a break is made in the dam of public credit and confidence you can see where it spreads. That was an attitude that I think pretty nearly anyone could justify at that time because it was money spent in a common cause; yet that action has lessened and reduced the stability of credit throughout the world. There is another thing I want to recall to your mind. In 1854 and 1855, during the Crimean war, the government of Russia serviced its bonds in London during the continuance of the war, and that action of the Czar government at that time was the means of stabilizing the credit of Great Britain throughout succeeding years. The thing that is wrong with the world to-day—one of the main things that is wrong with it—is we have lost a sense of morality in regard to contracts. When we take that action there is no morality left, and when there is no morality left there is no democracy and no sane government. So, for this trifling item of two or three million dollars shall it be known to the world—

Some Hon. MEMBERS: \$9,000,000.

Mr. DEACHMAN: No, it is not \$9,000,000; it is not \$3,000,000. Call it \$3,000,000. For \$3,000,000 the government of Canada which up to date through every stress and strain has stood true to its obligations, shall begin to repudiate. If we start that, where do we go? Where is the next part?

Mr. WALSH: I want to emphasize this one point. The motion that we are considering here to-day is not by the most profound stretch of the imagination a matter of repudiation. There is all the difference in the world between what is suggested here and repudiation.

Mr. HOWARD: This is worse.

Mr. WALSH: There is nothing worse than repudiation. This is a fair exchange of bonds at the current rate of interest for those perpetual bonds. I would not quarrel with you if it was bonds that had a definite date to fall due, but these are bonds that are going on perpetually. Now, to my mind, if we adjusted ourselves—one gentleman here suggested that after all we are merely adjusting the situation to-day to what it was when these bonds were first put out. To my mind it would have no influence on Canadian credit abroad. Australia came out of the depression, and the chief reason why Australia came out of the depression was that they took all their funded debts, municipal, state and federal, and refunded them at the current rate of interest.

Mr. KINLEY: Within their own country.

Mr. WALSH: All right, within their own country and outside their own country.

Mr. HOWARD: No, only in England.

Mr. WALSH: Many, many bonds were held outside their own country. They were dealt with in exactly the same way. They did not repudiate, nor were they charged with repudiation, and their credit remained on the London market at least as high as the credit of the Dominion of Canada.

Mr. DEACHMAN: No.

Mr. WALSH: At least as high.

Mr. HOWARD: Away down.

Mr. WALSH: They may pay slightly higher rates at certain times and lower rates at other times. I am speaking of the average over a period of time. I believe the credit of the Commonwealth of Australia is as high as the credit of Canada in the money markets of the world, and I feel that the condition of the people in Australia—and my friend Mr. Howard here knows more about it than I do—is very much better than the condition of the Canadian people, and it is on account of our fear of doing a thing like this.

I thought this was going to be a unanimous expression of opinion of this committee.

Hon. Mr. HOWE: I think my hon. friend missed the point with regard to repudiation. These bonds were not issued by the government of Canada; they were issued by the Grand Trunk Railway. Now, we had arbitration some years ago over the Grand Trunk Railway as to the consideration for certain obligations. That was determined by a court set up by the government of Canada, and mandatory on the government. That court said in consideration for the railway you must pay interest on these bonds according to the face of the bonds. You are repudiating the views of the court of 1918, and we have been defending it in the court against other claimants right up to now—we just decided the last one a short time ago. If you repudiate the agreement you will have one of the greatest legal messes on your hands that ever happened, I believe.

Mr. VIEN: Could we know where these bonds are held?

Hon. Mr. HOWE: They are held in England.

Mr. VIEN: All of them?

Hon. Mr. HOWE: I think so, yes.

Mr. YOUNG: I am rather interested to listen to a man who usually talks a great deal of common sense. I refer to Mr. Deachman.

Mr. DEACHMAN: Thanks.

Mr. YOUNG: I must say that I differ from him entirely with regard to this matter. I find that the very youngest of these bonds has now reached the respectable age of 56 years.

Mr. HANSON: Some were issued in 1878.

Mr. YOUNG: The youngest one is 56 years of age. What the minister says is quite true, there was something in this agreement about paying these bonds. That is quite true. We have gone through such a remarkable situation in the last few years that every man and every woman in this country has been forced to look things over again. The parliament of this country passed the Farmers' Creditors' Arrangement Act. What is the principle there? Is it the fact that they are going to say to the people holding bonds: gentlemen, you are going to be paid the full value of these bonds, or this mortgage, or this debt? That is not what is being said at all. Is it being said in the second place that the interest rate that you are paying shall be reduced? Not even that. It goes one step farther and says, that there shall be even a portion of confiscation of capital, and the powers given to that board of review are such that they see that it does happen. Yet we are worrying in this room about a perpetual bond bearing a high rate of interest which the national income of this country cannot support.

Mr. HOWARD: At the present time.

Mr. YOUNG: At no time. Is it a fact that we are now going to sit down and say that we are going to agree to these perpetual bonds on this basis? As I understand the motion which was proposed by Mr. Vien and seconded by Mr.

Walsh, it is this: that we recommend to the government that this matter should be dealt with by legislation and that the persons should be notified within a given number of years that they are going to be paid in full and they can seek whatever other investments they desire thereafter. It is left entirely to the government both as to time and as to arrangement. That is as far as the motion has gone, and if any man can propose a more reasonable motion I do not know what it would be. I know perfectly well that some years ago when everybody was passing through different times from what we are passing through now, we sometimes hesitated to do what seemed like repudiation. The only repudiation at all in this is that we are offering to give them all their money, all their money at some future date, that is all. All the interest will be paid up to that date, and then if they can invest their money better at that time, they can do so. That is as far as this motion goes.

Mr. Chairman, I want to say something further that has nothing to do with this particular item. I should like to say that the sooner we in this country recognize that we cannot pay debts on this basis, on which they have been issued, the sooner we begin to get on our feet, and business will begin to grow again. However, that is another issue that I do not propose to open up now. But surely every man here can, with good grace, support this motion which places it before the government to give it more consideration or which says that it is the opinion of the committee that they should give it consideration.

Mr. KINLEY: I do not think I should like to vote without more information. It seems to me that the thing is involved, and we do not see it all at the moment and we are not well acquainted with it. It is a serious matter and it deserves thought. Mr. Young compares it to the Farmers' Creditors Arrangement Act. I regard the Farmers' Creditors Arrangement Act as doing more harm to the good farmers of this country than anything I know of. You destroy the credit of 95 farmers who are good men in order that five men who are no good may pay the minimum. The basis behind the Farmers' Creditors Arrangement Act is this. There is a farm and there is a payment of principal due. You cannot take blood out of a turnip: take the farm; you cannot get any more. We are not like the farmer who cannot pay his debts. I think there is a desire in this country to meet our obligations fairly. I think it would be a serious matter if word went out to the world that Canada is willing to repudiate her debts. I was talking to the export manager of one of the banks of this country when going down to the maritimes a few weeks ago; he said that when the Queen Mary came in two weeks before, the banks had to keep open all night. He said the amount of money coming from Europe would astound you. He said millions upon millions came. Look at the confidence there is reposed in this country by people in other parts of the world. Do not forget that people do not do these things unless they are in trouble. We are told what Australia does and what New Zealand does. They are people who are in trouble. We are told what people in Europe do. They are in trouble. A man who can pay his debts does not need these short cuts and these foolish things; and I do not think we have need of any.

Mr. HOWARD: They are not shipping any money to Australia?

Mr. KINLEY: No.

Mr. YOUNG: I am told they are, in very large sums.

Mr. KINLEY: The point is that we are premature in this thing. If the government want to repudiate their debts and they say so, we will all know where we stand. But for a committee of this house, with regard to a matter about which there is a twofold obligation, to get up and say that because we can chisel a few dollars in the percentage we should take such action as is suggested and report to the government in this regard is something with which I cannot agree.

The CHAIRMAN: I should like you to remember, gentlemen, that last year when this principle was discussed exactly the same arguments were advanced; and we never thought, after very mature consideration, that we should go as far as that. All we did was to make a recommendation to the Minister of Finance that such steps should be taken to remedy matters as the government might think fit to take. After all, it is a question of policy; and I doubt very much if this committee has power to really bring such a motion forward.

Mr. VIEN: It is an expression of opinion.

The CHAIRMAN: Yes, but it is pretty strong expression of opinion.

Mr. VIEN: In the opinion of this committee legislation should be introduced to provide—that is the tenure of the motion—if it is deemed advisable. The motion might be worded differently, to the effect that in the opinion of the committee the government should consider the advisability; but it is only a pious wish. I should like the expression of opinion of the committee to be a little stronger; and I think the motion as worded cannot be damaging to the credit of Canada.

Mr. DEACHMAN: I have just asked my friend to the right of me, Mr. Cooper, what the Canadian National Railways is paying for money, and I find it is 3.24 per cent; and \$184,000,000 of these perpetuals carry a rate of 4 per cent. The saving, therefore, would be .76 of 1 per cent. That is what we will save off.

The CHAIRMAN: Will you allow me to make a suggestion?

Mr. KINLEY: There is another thing to be considered, and that is that the railway is in the market for money every year; they are borrowing money every year. What effect will this have on the future borrowings of the railway, if they undertake it?

The CHAIRMAN: Will you allow me to read what we did recommend last year in the report? It is so near to the resolution that I do not think the wording should be changed.

The CLERK: That is Mr. Vien's resolution.

Mr. KINLEY: That included the whole structure.

The CHAIRMAN: The resolution is not as bad as it looks. The resolution states "that in the opinion of this committee legislation should be introduced to provide for the redemption of the five categories of perpetual bonds indicated at the top of page 19 of the annual report of the C.N.R. system for the year ended December 31, 1938, under such terms and conditions as the Department of Finance may deem advisable."

Mr. VIEN: So as to give a premium, to compensate for it. They might be redeemed at 102 or 105, if the department deems it advisable.

The CHAIRMAN: The report of last year says, "Your Committee cannot urge too strongly that the whole funded debt structure of the Canadian National Railways be fully examined and that a determined effort be made to refund at a lower rate the issues bearing interest at a cost out of line with the present conditions." That is pretty nearly in line with this.

Mr. WALSH: What was done on that last year? Was any action taken?

The CHAIRMAN: The Department of Finance has taken steps to redeem every one of those bonds that came on the market, and redeem them as fast as they can possibly do so.

Mr. CAMERON: Have any been redeemed?

The CHAIRMAN: Yes, I think so.

Hon. Mr. HOWE: Yes. An officer of the department went to Europe to study the situation there.

Mr. CAMERON: They are practically all held in England.

Mr. KINLEY: I would move that as an amendment.

The CHAIRMAN: We will have to put the motion to a vote.

Hon. Mr. STEWART: Mr. Kinley has expressed very clearly the thoughts that were in my mind regarding this. It seems to me that your explanation just now renders any action by this committee at this time absolutely unnecessary.

The CHAIRMAN: Exactly.

Hon. Mr. STEWART: It may appear to be a minor matter, but let us see where it leads or the direction in which it tends. At this time when there is abroad in the world a spirit of repudiation of solemn obligations, national, international, individual and when there is a spirit of Nazism abroad, it seems to me we ought to consider very, very seriously the possible effect that even a minor suggestion such as this might have. Mr. Young speaks about the Farmers' Creditors Arrangement Act. There has been a lot of criticism about it in the house; but remember, Mr. Chairman, that it was based on one principle, and that was the insolvency of the farmer, his absolute inability to meet his obligations. That is the foundation of it altogether. It was built upon that. In order to save the expense, the loss to the farmer going through bankruptcy by the greater part of his assets being dissipated and consumed in costs, as in ordinary bankruptcy, this scheme was devised, for the benefit of the creditors as well as for the benefit of the farmer; and the costs of bringing about the settlement or the distribution of his assets were paid by the government. That is altogether a different foundation and a different principle from what exists in this case, I submit. Surely we are not insolvent.

Mr. HANSON: We soon will be if a remedy is not found.

Hon. Mr. STEWART: What is that?

Mr. HANSON: The Canadian National Railways will soon be insolvent if some remedy is not found.

Hon. Mr. STEWART: I am not speaking of the Canadian National Railways; I am speaking about Canada, because this is an obligation of Canada. This will be misunderstood. In Great Britain I am sure it will be misunderstood; and it will have, in my opinion, a detrimental effect altogether out of proportion to any possible benefit or advantage that we can derive from it. I believe from what you say, Mr. Chairman, that the finance minister and the government have adopted a policy of going out and buying them where they can.

The CHAIRMAN: They have gone further than that. The minister has just informed you that a special officer of the Department of Finance is now in England, as a matter of fact, studying this matter.

Hon. Mr. HOWE: Has been in England.

The CHAIRMAN: Yes, has been in England.

Hon. Mr. STEWART: Yes. I understand the policy is that when they go on the market they can buy them and take them in.

The CHAIRMAN: Yes.

Hon. Mr. STEWART: That is sound. There is no objection that whatever. Possibly a voluntary conversion might be brought about as has been done in respect to some other liabilities. But to go on record that we, as a committee, favour the action that is being suggested seems to me to be a serious step and one that may be attended with serious consequences at this particular time and in the future. I do think we would be well advised to take no action whatever, in view of the action that we have taken in previous years and the action that the government is taking as a result of the suggestions of previous years.

The CHAIRMAN: Of course, we were not aware when this motion was made that the finance minister had taken steps to comply with the recommendation made by this committee. In view of this fact, will you withdraw your motion, Mr. Vien? Or do you still persist in it?

Mr. VIEN: Mr. Chairman, I am convinced that the motion is right and that the public at large and the financial world at large would not consider the action of parliament in redeeming perpetual bonds—not defaulting on the interest, not defaulting on the principal of the bond, but making it redeemable when it is perpetual—as repudiation, but would consider it only as a sensible act. However, there is nothing further from my mind than moving a motion that might be construed as repudiation. I am quite willing to listen to your suggestion, Mr. Chairman, and to those of the hon. minister, as well as to the advice of eminent economists like Mr. Deachman, Mr. Stewart, Mr. Howard and Mr. Kinley, who are men of experience in finance; and I should not like to set up my own judgment against their judgment. On the other hand, I should like this discussion at least to be a reminder—it will be on the record.

The CHAIRMAN: Certainly.

Mr. VIEN: I should like it to be a reminder to the government that we mean business, that it is not a pious wish, that we deem that perpetual bonds of this kind are an abomination and that we would be rather silly asses if we did not sooner or later come down to brass tacks with regard to perpetual bonds. We would pass in the world of to-day as silly asses if we went on with perpetual bonds forever and for all time to come. I think that those who will hold that it is repudiation to make perpetual bonds redeemable fail to appreciate the trend of mind of the people in the world to-day. We are no longer in a time like that of the pre-war days or even the days immediately after the war. When we find governments like those of Great Britain and France defaulting on their interest on war bonds and war debts I do not believe we should be ashamed of paying to the full everything that is due, but bringing the perpetual bonds to a close.

The CHAIRMAN: Will you permit me to interrupt you for a second, Mr. Vien? If you withdraw your motion—

Mr. VIEN: I am quite satisfied to do that.

The CHAIRMAN: As chairman of this committee I will undertake to have a note made in the report which, practically speaking, will embody the views that you have expressed in your motion. What I do not like is a formal motion being moved in this committee here when we can obtain the same object by a note in our report.

Mr. KINLEY: Be careful how you write it.

The CHAIRMAN: I shall do that. I shall draw it, to be discussed here and passed as you see fit.

Mr. VIEN: I am quite willing to abide by your suggestion, Mr. Chairman.

The CHAIRMAN: Many thanks, Mr. Vien.

Mr. WALSH: As seconder of the motion, I associate myself completely with the remarks of Col. Vien and withdraw it.

The CHAIRMAN: Many thanks. Carried.

Mr. YOUNG: Mr. Chairman, I take it that the sense of the committee is that a formal motion is perhaps inadvisable at the moment, and I suppose we agree to that. I am always interested in persons shedding crocodile tears when they are talking about the protection of capital. I sometimes move around and meet human beings, and to tell the God's truth I am more interested in human beings than I am in the preservation of capital.

Hon. Mr. HOWE: We are preserving both, though, are we not?

Mr. YOUNG: We have been preserving one too much at the expense of the other. I am one of those who believes very strongly and firmly that for years we have been paying an interest rate on money which has never had any solid foundation; it has always been too high. The sum total of this motion is that we recommend that certain things be done. To do what?

Merely to terminate a perpetual bond, not to take anything from anybody except that perpetual aspect of this case. Now, if it is going in the record as you suggest—

The CHAIRMAN: Yes.

Hon. Mr. STEWART: Have we not as a dominion just recently issued a new stock that is perpetual?

Mr. YOUNG: Yes.

Mr. KINLEY: It is callable.

Hon. Mr. STEWART: I think it is permanent. What is the difference between consols and a bond?

The CHAIRMAN: Mr. Stewart, you are satisfied with my suggestion, are you?

Hon. Mr. STEWART: Yes.

The CHAIRMAN: Carried.

Mr. HANSON: What is the motion?

The CHAIRMAN: The motion is withdrawn.

Mr. HANSON: On division.

The CHAIRMAN: Oh, no; make it unanimous, because we will have it in the report and will have occasion to discuss it when the report is brought down here.

Dominion of Canada—loans. Carried.

Mr. BARBER: I was going to ask about the guarantees by the provinces. That does not mean anything, does it?

Hon. Mr. HOWE: We are gradually taking those over as they come due. That is about the size of it. They are guarantees of the provinces at the moment, but we pick them up.

Mr. WALSH: There is one question I wanted to ask regarding the $3\frac{1}{2}$ per cent advances, Trans-Canada Airlines Act, 1937, interest accrued, 1938, \$73,766.10; then on page 12 of the Trans-Canada Air Lines annual report we have interest on capital invested, \$104,852.68. Is there any connection between those two items; if so, what connection, and why the difference?

Mr. COOPER: Yes, there is a direct connection.

The CHAIRMAN: Would you mind bringing your question up again when we are discussing the Trans-Canada Air Lines in order not to mix up the two matters?

Mr. WALSH: It is under this item.

The CHAIRMAN: Yes, I know it is embodied in the capital loans. Well, proceed.

Mr. COOPER: There is a direct connection. We borrowed that money from the government and used it to purchase the stock of Trans-Canada Air Lines. We negotiated an interest rate of $3\frac{1}{2}$ per cent, and, on the other hand, the Trans-Canada Act requires that the Trans-Canada pay 5 per cent on the capital employed in the enterprise. There is a difference in the rate as between the rate at which the money was borrowed by the Canadian National and the rate at which it was invested in Trans-Canada.

Mr. YOUNG: Why should there be a difference?

Hon. Mr. HOWE: To let the Canadian National make a little profit out of one of its subsidiaries.

Mr. HOWARD: Fine. Carried.

Mr. WALSH: Does the same reply hold good for the other item of 2 per cent Advances Refunding Act, 1938? If the government is advancing money to the Trans-Canada Airlines, which I presume it is, at 2 per cent—

Hon. Mr. HOWE: No, it is not. The government does not advance any money to the Trans-Canada Air Lines.

Mr. WALSH: To what does that item refer, 2 per cent Advances Refunding Act, 1938?

Hon. Mr. HOWE: Temporary loans to the railway under the Refunding Act.

Mr. WALSH: If I were the treasurer of the railway I would borrow a considerably larger sum than \$21,000,000 and pay back all these 3½ per cent items.

Hon. Mr. HOWE: It is a different kind of money. We can borrow money on treasury bills for half of one per cent per annum as a government, and we do loan moneys for temporary advances to the railroad at something comparable to the rate on our short-term money. But when the railroad invests any money direct, of course, they have to pay the long-term rate.

Mr. WALSH: These other 3½ per cent items are long-term items?

Hon. Mr. HOWE: Yes.

Mr. WALSH: And the 2 per cent item is a short-term item?

Hon. Mr. HOWE: Yes, just a temporary advance.

The CHAIRMAN: Investments in affiliated companies. Carried.

Major contingent liabilities. Carried.

Schedule of companies comprising the Canadian National Railway System. Carried.

Mr. HOWDEN: Are they getting any less?

The CHAIRMAN: No; they are disbanding some.

Statement of revenue tonnage by commodities for years 1937-1938. Carried.

Revenue tonnage by commodities. Carried.

Mr. DEACHMAN: With regard to your traffic, would not the upturn of the building business be a tremendous help to your traffic? A lot of traffic that used to be moved in connection with the building industry has been lost as the building industry is as dead as it possibly could be. Is that material, or much of it, moved by truck, or is not the larger percentage of it moved by rail?

Mr. FAIRWEATHER: Of course, generally speaking, the heavier commodities tend to move by rail. Low-grade commodities, such as cement, bricks, lumber and stuff like that hauled any considerable distance, certainly would be moved by rail.

Mr. DEACHMAN: So the upturn of activity in the heavier lines of industry would be of great additional help to the railroad?

Mr. HUNGERFORD: Of great help.

Mr. MCKINNON: In regard to ties, I have had a number of complaints from tie producers in my district that the rates paid for ties by your company are higher around Ottawa and this part of Canada than they are up in Northern Ontario. Is that correct?

Hon. Mr. HOWE: Perhaps Mr. Vaughan could answer that.

Mr. VAUGHAN: I did not get the question.

Mr. MCKINNON: I have had a number of complaints from tie operators in Northern Ontario to the effect that the rate paid for ties by your company is higher around the Ottawa valley than it is up in Northern Ontario where their rate of wages is higher.

Mr. VAUGHAN: That is not correct, sir.

Mr. MCKINNON: The price paid for ties around here is the same as is paid up there?

Mr. VAUGHAN: Up in northern Ontario?

Mr. MCKINNON: The price is the same?

Mr. VAUGHAN: Yes, sir.

The CHAIRMAN: Carried.

Details of Railway Equipment. Carried.

Statistics of rail-line operation. Carried.

Mr. YOUNG: Mr. Chairman, there is just one item to which I should like to refer having to do with gasoline, petroleum oils and that sort of thing. To-day in the room I spoke to the traffic manager of the Canadian National and there is some information I want to get with regard to the rates for carrying these various commodities. He has agreed to supply me with that information, and I merely wish to mention it for the record so that it will not be overlooked.

The CHAIRMAN: Carried.

Employees and their compensation. Carried.

Distribution of the dollar.

Mr. HOWARD: That is what we are dealing with.

The CHAIRMAN: Approved.

Operated mileage, December 31, 1938.

Mr. EMMERSON: In connection with the item "Atlantic region," what does it mean by "mileage of trackage rights—1st main track 82.95 miles"?

Mr. ARMSTRONG: That will be the Canadian Pacific joint trackage in the Atlantic region—Westfield Beach to Saint John, and Fredericton to Vanceboro. We have joint running rights over the Canadian Pacific between those points.

Mr. EMMERSON: The C.N.R. has?

Mr. ARMSTRONG: Yes, sir.

Mr. EMMERSON: Between what points?

Mr. ARMSTRONG: Between Westfield Beach and Saint John. That is a short line, about 15. And between Fredericton and Vanceboro. Vanceboro is in Maine. It is just over the border.

Mr. EMMERSON: The C.N.R. have running rights between Fredericton and Vanceboro?

Mr. ARMSTRONG: Over the Canadian Pacific.

Mr. HOWARD: Compulsory co-operation.

Mr. ARMSTRONG: No, sir.

Mr. EMMERSON: When did the C.N.R. operate trains over that line from Fredericton to Vanceboro?

Mr. ARMSTRONG: They made an agreement, I think it was in the twenties, although I could not give you the date exactly, to operate trains between Fredericton and Vanceboro over the Canadian Pacific.

Mr. EMMERSON: They made an agreement but they do not necessarily use it.

Mr. ARMSTRONG: They operated that for a number of years, but recently, in 1933 or 1934, they made an arrangement with the Canadian Pacific. Although they retain the rights, the Canadian Pacific handles the freight traffic in Canadian Pacific trains under a supplementary agreement.

Mr. EMMERSON: The C.N.R. does not actually operate the trains between those two points?

Mr. ARMSTRONG: No, sir, that is correct; but this underlying agreement is for running rights.

Mr. KINLEY: Mr. Chairman, with regard to the road from Middleton to Bridgetown, I believe the railway company has justified the closing up of the line. Is that true, Mr. Hungerford?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: I am told you are going to build a spur from Bridgetown to the D. A. R.

Mr. HUNGERFORD: That is the proposal.

Mr. KINLEY: I am also told that the spur will cost as much as to maintain the line, and that you will leave out Clarence and other important centres that have apple warehouses which you will not serve.

Mr. FAIRWEATHER: That latter statement is not correct.

Mr. KINLEY: Which statement is that?

Mr. FAIRWEATHER: The statement about the maintenance.

Mr. KINLEY: I am told that the spur will cost as much as to maintain the line. You will have to build a bridge across the Annapolis River, will you not?

Mr. FAIRWEATHER: No. The spur takes off on the same side of the river as the Canadian National line. The Dominion Atlantic Railway crosses the Annapolis river just to the east of Bridgetown. The spur is to the east of that bridge, so that the spur is on the same side of the river as the Canadian National line, and the spur is a relatively short spur and the cost of the construction of it together with the maintenance of the spur is considerably less than the cost of maintenance of the piece of track which it is proposed to abandon.

Mr. KINLEY: You have a crew of only three men on it now, have you not?

Mr. FAIRWEATHER: That may be entirely correct, but the maintenance of that line over a period of years—

Mr. KINLEY: Twelve or fifteen miles?

Mr. FAIRWEATHER: Nearly fifteen miles, and the spur I think is less than one mile.

Mr. McKINNON: Mr. Fairweather, I have heard that you propose to construct a spur from the Canadian National line at Atikokan in to the new iron deposits there.

Mr. HUNGERFORD: I can answer that. It all depends on the development of the iron mine.

Mr. McKINNON: Nothing is assured yet?

Mr. HUNGERFORD: No, it is purely a matter of speculation as yet.

Mr. McKINNON: As far as this year is concerned it is up in the air?

Mr. HUNGERFORD: Yes.

Mr. DEACHMAN: I would like to slip back to the distribution system. In regard to your fuel costs, what is the added cost to the Canadian National Railways through the use of Nova Scotia coal?

Mr. VAUGHAN: Nothing.

Mr. DEACHMAN: Your fuel price is as low as the Canadian Pacific?

Mr. VAUGHAN: Yes, sir.

Mr. DEACHMAN: And there is no added cost in bringing the coal to Montreal or down—how far does Nova Scotia coal move out this way?

Mr. VAUGHAN: We take Nova Scotia coal on the transcontinental as far west as Hearst, and we bring it in some cases as far as Toronto.

Mr. DEACHMAN: When you bring it as far as Toronto, would that cost as much as fuel from the United States?

Mr. VAUGHAN: No, it does not. What we do is this; we say to the Dominion Coal Company or the coal company concerned: the price of American coal at Toronto is so much, we will take your coal if you meet that price less cost of handling and haulage. Haulage and handling charges are taken into consideration. Then they go to the government and get a subvention.

Hon. Mr. HOWE: It is paid for out of another pocket.

Mr. KINLEY: Have you got anywhere on your agreed charges; have you made any contracts?

Mr. YOUNG: That was discussed yesterday.

Mr. HUNGERFORD: I think I spoke about that yesterday. We have made no contracts yet.

Mr. KINLEY: Are you going to invade the situation in the near future?

Mr. HUNGERFORD: We hope to.

The CHAIRMAN: Shall the report carry?

Report carried.

The CHAIRMAN: Is it your pleasure to sit this evening at half-past eight to consider the rest of these reports. There are just two reports left.

Mr. VIEN: Why cannot we deal with them now?

The CHAIRMAN: I am quite willing.

Mr. WALSH: I wanted to suggest something in connection with the Trans-Canada Air Lines. I do not want to hold up the committee if it is the desire to get through. We all hear that the Trans-Canada Air Lines developed under Mr. Howe and the Department of Transport are doing exceptionally good work and making exceptionally good progress. We had a very elaborate report from Mr. Fairweather yesterday on the terminal development, and so on. I think from what we hear of Trans-Canada Air Lines it is something to the credit of Canada and very much to the credit of the present Minister of Transport and the management of the Trans-Canada Air Lines. I was wondering if it would be of any real use to the Trans-Canada Air Lines if we could have Mr. Johnson come before our committee when this report is being considered.

The CHAIRMAN: He is here now.

Mr. WALSH: He could give us a talk, and a more complete report than we have here on what they are doing and what they propose to do. I consider that it would be an excellent advertising meeting for the Trans-Canada Air Lines and it would give the members and the people of Canada generally a better understanding of the developments that have taken place and that will take place and the excellent progress that has been made.

The CHAIRMAN: Now, gentlemen, we have these items: On item 442, Maritime Freight Act—this is statutory and I do not see why we should not pass that here.

(Item agreed to.)

Item 447, Maritime Freight Act—the same thing.

(Item 447 agreed to.)

Item 474, Canadian National (West Indies Steamship Service)—shall the item carry?

Mr. KINLEY: What are you on now?

The CHAIRMAN: These are items brought down to the house in the supplementary estimates. This item 588, Canadian National Railways, is a big item but it is in the estimates and what can we do but pass it?

Hon. Mr. STEWART: What is the amount involved in that item?

The CHAIRMAN: The amount is \$43,750,000.

Mr. WALSH: Is that the estimated deficit for next year?

The CHAIRMAN: That is it.

Mr. WALSH: Might I ask Mr. Cooper, while he is here, just for information, if that \$43,000,000 odd item is going to be as nearly correct as a budget item as was the \$42,000,000 of last year?

The CHAIRMAN: That is what they state in their report.

Mr. HUNGERFORD: I shall attempt to answer that. The determination of revenue in advance is always difficult; sometimes it may be done with a fair degree of accuracy and sometimes the reverse. In respect to 1938 we did not

come as close to the figure in our estimate as, perhaps, we should have liked to. But, taking everything into account, at the present time, as far as we can foresee, we should come reasonably close to the figure that has been submitted.

Mr. WALSH: It will be recalled that last year I urged this before the minister, that if the deficit was going to be nearer \$50,000,000 than the amount that was then estimated it would be desirable that the larger amount should be indicated as the estimate. To put it in at such a low figure as was done for 1938 and then to have the deficit exceeded by \$11,000,000 to \$12,000,000 does not give the public a correct impression of the operating deficit of the Canadian National Railways.

The CHAIRMAN: Can't you be kind and leave them a little leeway?

Mr. WALSH: I don't mind leaving them a million or two, but I do not think the difference should be as great as is indicated here.

Hon. Mr. HOWE: I might answer that in this way: Is it wise to tell the Canadian National to budget for a deficit of \$50,000,000 for next year when they might get through for much less? Is it not better for them to work on a budget deficit of \$40,000,000, and then tell them: if you must have more you have got to come up and ask for it; we are not going to give it to you now. I think we could encourage the Canadian National Railways to ask for more than they are likely to need.

Mr. WALSH: I would like to see it a little bit closer than \$11,000,000 or \$12,000,000.

Mr. HOWE: Who could foresee the slump that took place last year? Can anyone foresee what the crop is going to be this coming fall?

Mr. HUNGERFORD: I will be very much obliged if anyone will tell me what the gross earnings are going to be this year.

The CHAIRMAN: On item 589—Prince Edward Island Car Ferry.

Item agreed to.

On item 590—Trans-Canada Air Lines—\$498,000.

Item agreed to.

Gentlemen, shall we meet at half-past eight? All we have to deal with is the Canadian Merchant Marine and the Trans-Canada Air Lines.

Some Hon. MEMBERS: Agreed.

The committee adjourned at 6.00 o'clock p.m. to meet again at 8.30 o'clock p.m. to-day.

EVENING SESSION

The committee resumed at 8.30 p.m. Sir Eugène Fiset in the chair.

The CHAIRMAN: Gentlemen, I see a quorum. The first thing we will take up is the Canadian National (West Indies) Steamships, Limited. Mr. Vaughan is here to explain anything you may want on the subject matter. Mr. Vaughan will you take the report and read it, please?

Mr. VAUGHAN: (Reads)

ANNUAL REPORT

MONTREAL, March 20, 1939.

The HONOURABLE C. D. HOWE, M.P.,
Minister of Transport,
Ottawa.

SIR,—On behalf of the Directors, I beg to submit the Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ended 31st December, 1938.

The improvement in the company's business noted in the reports for the last three years was further extended during 1938.

The comparative operating results are as follows:—

	1938	1937	Increase	Per cent
Operating revenues	\$4,915,355 40	\$4,676,684 10	\$238,671 30	5·10
Operating expenses	4,169,115 63	4,018,146 35	150,969 28	3·76
Operating profit	\$ 746,239 77	\$ 658,537 75	\$ 87,702 02	

Operating revenue increased \$238,671 during the year. Freight revenues increased \$147,578. Passenger revenues increased \$62,342, and miscellaneous revenues increased \$28,751. The increased freight revenue was principally from export traffic. The increase in passenger revenue reflects the continually increasing popularity of the company's services. Since 1932 passenger revenues have increased approximately \$100,000 per annum. The increase in miscellaneous revenues reflects the charter of S.S. "Cornwallis" carrying nitrate from Chile to United States ports.

Operating expenses increased \$150,969 or 3·76 per cent as compared with an increase of 5·10 per cent in revenue. The increase reflects the cost of handling the additional business and the restoration of basic rates of pay.

After payment of bond interest but before depreciation and interest on Government advances, there is available \$276,239.77, which will be paid to the Government as interest on advances. The corresponding figure in 1937 was \$188,537.75.

The vessels of the fleet were operated without serious casualty.

Acknowledgment is made of the loyal and efficient service rendered by the officers and employees of the company, both ashore and afloat.

For the Directors,

S. J. HUNGERFORD,
President.

The CHAIRMAN: Gentlemen, the consolidated balance sheet which is certified by George A. Touche & Co., is the next document before us; shall we take it as read?

Mr. BARBER: Has there been any reduction in the fleet?

Mr. VAUGHAN: No, we have exactly the same number of vessels.

Mr. BARBER: As last year?

Mr. VAUGHAN: Yes.

The CHAIRMAN: Now, gentlemen, we will call on Mr. Johnson who will give us a statement regarding Trans-Canada Air Lines that will not take more than half an hour, but which will be to the point.

P. G. JOHNSON, Vice-President in Charge Operations, Trans-Canada Air Lines.

Mr. Chairman and gentlemen, I had not expected to give a talk, but I will try briefly to outline what has been accomplished in the last twelve months, and I am not going to bore you with the details. Briefly, we set up an organization which divided Canada into two general divisions, the eastern division and the western division with a division point at Winnipeg. At Winnipeg we established operation headquarters and then proceeded to build up our organization. Our first job, of course, was to establish a training school through which we could train the pilot personnel, the despatchers and the mechanics in the particular technique that is required for this type of work. That consumed the better part of the first year, and has resulted in an organization which now numbers about 450 people of whom about 10 per cent are pilot personnel and the rest of them are divided up amongst mechanics, despatchers, radio operators and so forth. We also established across Canada from Montreal to Vancouver and from Lethbridge to Edmonton a series of radio stations so that we now have in operation, I think, about fourteen in number of radio stations which enable us to keep in contact with our ships when they are in the air and allow our ships to keep in contact with us or with the ground stations and also enables one station to talk to another station. We have also worked very closely with the Department of Transport in the establishment of airway facilities such as radio ranges and meteorological service, to the end that we have now a complete airway operating from Vancouver to Montreal via Lethbridge, Regina, Winnipeg, Wagraming, Kapuskasing, North Bay, Toronto, Ottawa and Montreal. It is anticipated that in the near future it will be extended to Moncton, New Brunswick.

The equipment at July 1, 1937, consisted of three Electras 10A type on order and four 14's, which is a little different type of aircraft and is a type we are now using on the Trans-Canada. They had not been delivered at that time, and in order to start work on our training program we purchased two of the 10A type of aeroplane from the Canadian Airways who were operating between Seattle and Vancouver, and by that purchase we inherited the mail contract between those two points. Subsequently we ordered an additional number of 14's so that our fleet consisted of fifteen aeroplanes up until November, 1938, and we lost one in the crash at Regina. In July of 1938 we began an experimental service of carrying mail matter that was offered by the post office from Winnipeg west by daylight to Vancouver. Subsequently, that was changed to a night operation, and then in October, 1938, we started carrying air mail or surcharge mail, from Winnipeg to Vancouver. As of December 1, 1938, the service was extended eastward to Montreal and Toronto and air mail was carried. At about that time we also commenced carrying express over the entire system. On March 1, 1939, we changed the eastern half of the route over to a night schedule, and it has been operating on that basis since that time. No passenger service was offered during the year, except on the Seattle-Vancouver run. On April 1, 1939, we began carrying passengers for

hire on the entire service, and we are now continuing to do so. The operation has been reasonably successful. The performance is comparable to any performance in North America during a similar period. As a matter of information, during December of last year and January and February of this year our percentage of total mileage completed as compared with the total mileage schedule was around 95 per cent or better, which is a good average under any circumstances. The route is not particularly hard to fly, and has certain advantages and certain disadvantages. Our biggest disadvantage is probably yet to come, and that is what happens to the fields, particularly in northern Ontario, during the spring break-up. We are just going through that phase of the problem at the present time. That is the most serious thing facing us at the moment, and it is anticipated before the summer is over that we will have an answer and that the operation will be based on this year's experience.

As you know, we are part of the Canadian National system, and as a result we have tried not to duplicate in our organization any department that we can properly use in the Canadian National organization. That means that work incidental to the purchasing branch, the advertising, publicity, legal and accounting departments and so forth is handled through the railway system. That has been done in the interest of economy.

Now, none of us knows exactly what the reception is going to be to our service. It is significant, however, that starting practically from a scratch and introducing a service, the mail loads have now risen so that during the past week they are averaging considerably better than 1,000 pounds of mail a day. We anticipate that if we can carry between 2,500 and 3,000 pounds of mail a day the post office will break even on the carriage of mail. In other words, they will recover in stamp sales as much money as the service costs to the post office department. What the passenger business will amount to, of course, is something nobody can predict. To-day with about two weeks behind us we are carrying passengers at a rate of income of about \$50,000 a month and that can be expected to be increased, especially during the months of May, June, July and August. At the moment we are running about 50 per cent capacity. In other words, our ships are carrying about five pay passengers on each schedule. We are running at the moment one trip a day between Montreal and Toronto and Toronto and Vancouver. We are running two round trips a day between Lethbridge, Calgary and Edmonton and two round trips a day between Vancouver and Seattle. The reason for the two round trips between Lethbridge, Calgary and Edmonton is in order to make connection both ways for those cities. The two round trips between Seattle and Vancouver are operated simply to make better use of the equipment. We have to assign two aeroplanes to this service so we might as well use them as have them in the hangars, and by so doing we have increased the carriage of mail on that particular route and also the carriage of passengers.

We have completed during the year an interline arrangement with all the air lines in the United States except one, and we have just to-day received permission from the United States government so that we have a licence to fly across the state of Maine which means that we can now proceed with the development of the air ways east of Montreal. That work is in hand in so far as the Department of Transport is concerned, and as the weather permits they will get along and complete the fields at Megantic, Blissfield and Moncton. Trans-Canada Air Lines is now prepared to begin construction of their hangar facilities at Montreal and also at Moncton as soon as the field at Moncton is ready.

It is rather difficult to give you a comprehensive report extemporaneously and, perhaps, there are a number of questions in your mind which you would like to ask me. I have tried to tell you in a rather sketchy sort of way what we have been doing. I might say that we have tried to hold the organization

down to as small an organization as we can. We are trying to make it a small and flexible working organization, and we are endeavouring to build it up on the basis of a team rather than upon any individual star performer or anything of that kind; so that we have a closely knit and well organized working organization. We work in close harmony with the Department of Transport and with the Post Office Department, and both of these departments have been most helpful in solving our problem.

Now, if there is still time I shall be happy to answer any questions that might occur to you gentlemen and, perhaps, bring up matters that are in your mind and which have slipped by me while giving this rather brief report.

Mr. BARBER: Mr. Johnson, in regard to revenues. I might say first of all that I have had the privilege of travelling on your lines and I was very much taken with the service and with the personnel. Of course, the question of revenue arises in the mind of the public. Would the revenues derived from the carriage of mail pay the cost of the service?

Mr. JOHNSON: At the present time and with only one schedule a day across the country I would say the present revenue from the carriage of mail will not pay the cost of the service. At the moment our cost of operation is slightly higher than comparable service in the States. However, as the frequency of service increases, and assuming that we can do the work with the same fleet that we now have, we expect, after our personnel are fully used to the job and we have got the rough edges worn off the thing, that we can operate for approximately 65 cents a mile. We are at present being paid 60 cents a mile by the Post Office Department.

Mr. BARBER: In other words, three or four passengers carried only—

Mr. JOHNSON: In time I believe that a 50 per cent load factor and the revenue from the Post Office Department at about the same figure will cover the operation cost of the T.C.A. That is assuming that we can use the present equipment. However, if the demand of the service requires other equipment, that is another problem.

Mr. EMMERSON: You spoke of the number of ships last fall as fourteen. Is the number still fourteen?

Mr. JOHNSON: No, we had fifteen last fall; we now have fourteen. We lost one by accident.

Mr. BARBER: Was that a Lockheed 14?

Mr. JOHNSON: Yes, a Lockheed 14.

Mr. EMMERSON: You have fourteen Lockheeds?

Mr. JOHNSON: No; we have nine Lockheeds. We have thirteen aeroplanes at the present time. We sold one of the Electras to the Department of Transport. We have four Electras. They are a smaller type of ship and we have nine 14's, and we have one 14 on order to replace the one that was lost.

The CHAIRMAN: Gentlemen, do you want to peruse the report, or shall we take it as read?

Mr. YOUNG: Have you any statement to make about the accident, Mr. Johnson?

Mr. JOHNSON: No, I think that was fully covered in the investigation that was carried out by the Department of Transport which appointed a board of survey, and there is nothing I could say that would be in any way different from the findings of that board.

Mr. YOUNG: Have the findings been made public?

Mr. JOHNSON: Yes, that report was published.

Mr. BARBER: Is there any considerable revenue from express?

Mr. JOHNSON: Express revenue is and will always be a poor third. Starting from no express revenue at all, our net express revenue now amounts to about \$1,500 a month.

Mr. BARBER: Is that handled in combination with the Canadian National?

Mr. JOHNSON: The Canadian National Express handles our work for us. We work in close harmony with them, and they carry out a pick up and delivery service and we do the carriage by air.

Mr. EMMERSON: On page 7 I notice that the number of personnel is given as 332 whereas you said there are 450. Has there been an increase?

Mr. JOHNSON: Yes. That, of course, is the increase that is going on from month to month. That figure of 332 was as of the 31st of December and since then there has been an addition of about 100.

Mr. BARBER: You maintain about forty pilots?

Mr. JOHNSON: We have forty pilots in actual service or thereabouts—there may be one or two less than that—but about forty in actual service, and then we have in training—we are trying to have in training about ten pilots.

Mr. BARBER: And I understand that all those that are in the service have had experience of about 700 hours or over.

Mr. JOHNSON: We draw nearly all our pilot personnel from the other operators in Canada, like the bush operators and certain fixed base operators, some came from England—we got two or three from Imperial and British Airways—but generally speaking they came from operations in Canada; and these men all had considerable amount of experience running up into 4,000, 5,000, 6,000 or 7,000 hours. They had with us, during the training term, 300 or 400 hours in the type of plane and under the conditions that we operate the air lines before they were turned loose as pilots on a regular run. From now on we will not put on any more captains or so-called first pilots, but we will put on the second pilot or assistant pilot and as vacancies occur we will pick from those to fill in, and from the new recruits we will fill in the second pilot positions.

Mr. BARBER: You made mention of the trouble you are having with your fields and the experience you are having with them is with the rolling of the snow, is it not?

Mr. JOHNSON: Yes.

Mr. BARBER: It is a question now of rolling or removing the snow, is it not?

Mr. JOHNSON: I am not prepared to give you the answer to that. The point is that if we remove it by blowing or by some such mechanical means it runs into rather a large capital sum of money for a very few weeks' use. Now, it is quite possible that we may discover a means—and we are working and studying on it—a means of combining rolling and scraping and scarifying and manually hauling away the snow that will solve the problem. We expect after this year's operation, however, to have something that will be of use for next winter.

Mr. HANSON: What is the difference between the charge by airship and the express charge of the railway?

Mr. JOHNSON: I cannot give you that exactly. It is considerably higher. Air express rates are approximately the same as air mail rates.

Mr. HANSON: They double.

Mr. JOHNSON: Yes, that is right.

Mr. HANSON: Is there any limit to the weight of express for air mail?

Mr. JOHNSON: Yes, there is a limit to the size of the package that we can handle because it is limited to the size of the compartments, and I think we have a limit in weight of 500 pounds for any one package.

Mr. EMMERSON: Does the extension of the service to Moncton depend upon the airport at Moncton—the completion of it—or will intervening points be completed?

Mr. JOHNSON: It depends upon both. It depends upon the completion of the airport at Megantic, which is at the border of Maine and Quebec, and the completion of the radio range at that point, and the same is true for Blissfield, New Brunswick, and of course, the completion of the field at Moncton, all of which are started and are in hand. However, the winter has prevented any work being done. As soon as the break-up is over and the frost is out of the ground—and I am sure the Department of Transport has that in mind—the work can be completed.

Mr. WALSH: Where is Blissfield?

Mr. JOHNSON: About 144 miles direct east of Megantic. I think it is in New Brunswick.

Hon. Mr. HOWE: It is south of Fredericton.

Mr. McKINNON: What do you base your passenger rate on?

Mr. JOHNSON: It is more or less set for us by the Trans-Canada Act which, I think, has a requirement that the tariff must be competitive with similar services in the States, and the basic rate there is 6 cents a mile. It varies below that in some instances. Where we have any competition between two points in Canada or where it is possible to go by routes in the States we meet that rate; otherwise our rate is 6 cents a mile.

Mr. McKINNON: Are your planes flying the beam?

Mr. JOHNSON: Oh, yes, they have been flying the beam ever since we started operation.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. WALSH: Is there any particular reason why Megantic was selected rather than, say, Sherbrooke?

Mr. JOHNSON: A reason was that it lies almost in a direct easterly line from Montreal. That run has to be run on a non-stop basis directly across, and so it happened to fall across or nearly directly east across that line. That is one reason.

Mr. WALSH: The airways are concluding their service at Moncton, are they not?

Mr. JOHNSON: That is the present plan.

Mr. WALSH: Does your company contemplate an auxiliary service to Halifax?

Mr. JOHNSON: As yet we are not contemplating any auxiliary service, but there are services out there to take care of Halifax, Saint John and Fredericton; in fact, one of them is beginning operations at the present time, or re-beginning operations.

Mr. WALSH: And to the island as well?

Mr. JOHNSON: That is right.

Mr. WALSH: And this service will be so timed that this can fit in with the time table of the other service.

Mr. JOHNSON: That is right. We have tried to follow the policy of not engaging in services where we could not use equipment that was of the type used on the trans-Canada in the interest of economy. Obviously we want as few types of equipment as we can have; where it is necessary to use smaller equipment it is felt that they might better be operated by others than by Trans-Canada Air Lines.

Mr. WALSH: I was thinking of a mail service and passenger service for ports like St. John and Halifax, and wondering whether a direct service operated

by Trans-Canada Air Lines straight through from Moncton to Halifax or St. John, either the one or the other, would not offer certain facilities that might not be adequately performed by these private companies.

Mr. JOHNSON: That has not proven to be so. For instance, a service out of Regina into Moose Jaw and Saskatoon and Prince Albert and North Battleford is being operated by a private corporation with smaller airplanes than are necessary in transcontinental service. This is apparently satisfactory, and there is no reason why it should not be. The airplanes are perfectly modern airplanes. I am quite sure that the maritime end of the thing can be operated on the same basis. There is some question in our mind whether it is possible to operate into any of these Atlantic coast ports, with the airport facilities that are available or can be made available without terrific expenditure of money. If we can operate our present type of equipment in there, and if the traffic volume should increase to the point that we have to put on more equipment, the problem becomes more pertinent.

The CHAIRMAN: You have an interest of \$250,000 in Quebec Airways?

Mr. HUNGERFORD: Canadian Airways.

The CHAIRMAN: Canadian Airways or Quebec Airways?

Mr. HUNGERFORD: Canadian.

The CHAIRMAN: And \$250,000 in the C.P.R. also?

Mr. HUNGERFORD: So I understand.

The CHAIRMAN: What control have you over those lines?

Mr. HUNGERFORD: We have a directorship.

Mr. HANSON: I should like to ask Mr. Johnson if they have contemplated putting in a service extending any further up the Pacific coast. Take the city of Vancouver. Can they extend it to the north to Prince Rupert, for instance, or to Alaska?

Mr. JOHNSON: There have been no plans along that line, Mr. Hanson, at all. The only plan for extension west of Vancouver is to Victoria. We presently give Victoria service by sub-contract; but if the field is completed at Victoria, it is quite possible Trans-Canada will operate out into Victoria as well. The service up to Prince Rupert and that part of Canada would be better served and more regularly served through the Edmonton gateway than going up the Pacific coast. As you know, the weather conditions have a regular variation. I think it would be better to go in the other way.

Mr. HANSON: Yes; but the United States air service goes from Seattle and San Francisco right up to Alaska. It should be possible for Canadian air transport to do the same thing.

Mr. JOHNSON: I think you have misinformation there, of course, because there is no operation out of Seattle, except to Vancouver, by any United States line at the present time. Last summer they discussed the possibility of operating up there, and actually did run one trip up there; but there is no regular service. Beyond that, the rates are fixed by the government. We do not fix the rates.

Mr. HANSON: What about the mail service up to the Yukon and northern British Columbia? Is that given to the dominion air service or is it given to private companies?

Mr. JOHNSON: There is a private company that is operating north of Vancouver up into that area. I do not know how far north they go. There are services out of Edmonton to White Horse and in that district; and then they connect with the maritime lines into Fairbanks and those places there. There is no service as yet into Prince Rupert.

Mr. HANSON: I know there is not into Prince Rupert. But I was wondering if it would not be feasible for the Canadian air service to take that into con-

sideration; because if we are giving a mail contract to an American firm or a private firm, why should it not be given to Canadian airways to give that service?

Mr. JOHNSON: That is a matter of policy for the post office to decide. It does not rest with us to decide the policy as to who has the mail contracts or where the routes go.

Mr. HANSON: Could you look into that to see if it is possible?

Mr. JOHNSON: That is part of our job, to look into anything they are contemplating. Of course, if this comes up, we will do the same there.

Mr. WALSH: Is it not the policy of the Trans-Canada Air Lines to operate east and west only, and to leave it to private corporations to develop lines north and south?

Mr. JOHNSON: That has been the general policy except where the traffic is sufficient so as to allow the use of main line equipment. But, generally speaking Trans-Canada Air Lines were set up, as I understand it, as a trunk line.

Mr. KINLEY: Your big obstacle is fog on the Atlantic coast.

Mr. JOHNSON: It is a pretty big one.

Mr. KINLEY: You have not overcome it for landing?

Mr. JOHNSON: Not yet, except in an experimental way. There is some blind landing equipment, but as yet it is still in the laboratory stage and is not regularly used in regularly scheduled operation. That is our main difficulty at times in Vancouver, to get in and out of Vancouver when we get those ocean fogs.

Mr. KINLEY: The Americans have the same trouble getting in and out of Boston.

Mr. JOHNSON: Yes; that is right.

The CHAIRMAN: Are there any other questions, gentlemen? Shall the report carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Carried.

Mr. WALSH: I compliment Mr. Johnson, the Manager of the Trans-Canada Air Lines.

The CHAIRMAN: I was not only going to do that; I was going to say that his statement is extraordinarily clear and has saved me the trouble of going through all that file. I personally thank you very much, Mr. Johnson.

Mr. HANSON: I think that compliment should extend to the minister for appointing a man who knew something about it.

The CHAIRMAN: Hear, hear. Gentlemen, do you want to go through the report of Touche & Company, the chartered accountants? We have already examined in detail the balance sheet. It is a consolidation. Shall we say carried?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Carried. I thank you very much, gentlemen, for your kindness.

Mr. WALSH: Before we adjourn the meeting could I ask if the three questions that I filed yesterday have been answered, and the others that I filed on the first day of the meeting?

The CHAIRMAN: Some of them have already been read into the report.

Mr. WALSH: I know some of them have.

The CHAIRMAN: When the others are received, they will be included in the report in accordance with the decision of the committee.

Mr. WALSH: Then I was bold enough yesterday to ask the management of the railway, through Mr. Hungerford, when it was decided to recommence operations on the tunnel station, and I think the management suggested that they would probably have an answer to-day.

Mr. HUNGERFORD: Will you look up the record, Mr. Armstrong?

Mr. ARMSTRONG: That is December 5, 1938.

Mr. WALSH: December 5, 1938?

Mr. ARMSTRONG: That is the answer to the question.

Mr. WALSH: The reason I asked that question was that during the election in St. Henri in January, 1938, there was a promise made by two ministers of the crown that this tunnel station would be commenced.

The CHAIRMAN: Only two?

Mr. WALSH: And that level crossings would be abolished in St. Henri if the electorate voted correctly.

Mr. KINLEY: Did they?

Mr. WALSH: I am not establishing any connection whatsoever between what the management did and what the ministers promised.

Hon. Mr. HOWE: You are not suggesting any lack of good faith?

The CHAIRMAN: They did not specify any time, did they?

Mr. WALSH: Yes; before the next general election. I am sorry that the Minister of Transport was not in St. Henri to make the same promise; otherwise, the election would have gone the other way. I think that is the general run of by-elections.

The CHAIRMAN: That is a rather clever statement, then. Gentlemen, we shall meet at the call of the chair to consider the tentative report, when ready.

Mr. HOWARD: Just before we adjourn, may I say that I missed the meeting of yesterday; but possibly it is just as well for me to say what I have to say now. It will avoid my saying it in the house and avoid delay at that time.

The CHAIRMAN: Then go on with it now.

Mr. HOWARD: After looking over the reports, in spite of the possibly bad statement presented by the C.N.R., but the excellent statement presented by the Trans-Canada Air Lines, the Canadian National (West Indies) service and so forth, I cannot help saying that there has been developing during the past three years what I would call a general antagonism towards this national asset. There has been put on, to my mind, almost a deliberate campaign to try—I shall not use the word “sabotage”—to destroy the confidence of the people in this national asset. In connection with the Montreal terminal there has also been a considerable antagonism displayed in certain other parts of Canada towards that development. After the explanation that was given yesterday, I think it is worthwhile to try to anticipate any further undermining of the public confidence in this national institution. We, as representatives of the people of this country and as members of this committee, should be proud that this small country, with its small population, has such a splendid asset as we have in the Canadian National Railways, the Trans-Canada Air Lines and subsidiary companies. But you cannot get the co-operation you should have, you cannot get from the employees the loyalty that you should get in spite of the splendid work that has been done by the officials and by the employees of the Canadian National Railways, unless you prevent public opinion throughout this country from being swept around as it has been during the last three years. You must consider what the Canadian National is to Canada. I am not now speaking of our undeveloped national resources. Undoubtedly the Canadian National is Canada's best national asset. It has been handled by a board of directors and management of men who have appeared before this committee year after year, men who are exceptionally fine. Why should we allow, and continue to allow, speeches to be made throughout this country and publicity in the newspapers throughout this country detrimental to the

public interests of the Canadian citizens? If we were to have a war, this Canadian National Railway system would be an outstanding asset to the Canadian people from that standpoint. If we do not have a war, in connection with winter service—with all due respect to our truck fellows and good roads programs in the different provinces and so on—the one thing that you can depend upon is the railway system in this country. The development of this country has been due more to the Canadian National Railways and the Canadian Pacific Railway than to any other single thing in Canadian history.

My colleague Mr. Howden says: How are you going to do it? That is exactly why I wanted to make these few remarks. We have been exceedingly lax in the publicity that we have given to this national asset, the Canadian National Railways. When business is tough and times are bad, the ordinary merchant advertises more; and when things are good, he advertises less. These statements that we have just been through—the proof of the pudding is the eating—establish the fact that the publicity and the advertising, outside of the good service, more than any other single factor has helped to boost up your steamship service to Bermuda and to the West Indies. But I am more concerned with the propaganda that is being put out to destroy in the minds of the Canadian people what is the great asset that we have in the Canadian National Railways. I am going to move that this committee recommend to parliament—and I am not in the advertising business—that during this next year we ask the Canadian National Railways to spend at least \$50,000 to publicize what the Canadian National means to Canada—tell what it can do from the service standpoint and what it has done in the past—just to correct the impression that is being put over in the smoking cars and all around the country, in the clubs and so on, and which is detrimental to the best interests of the Canadian National Railways. This publicity campaign could be handled nicely. It is an absolutely non-political thing. It is just a question of stating the facts, of telling the Canadian people what the railway means to Canada, putting it up in nice form and publicizing it from the Atlantic ocean to the Pacific. I think that, with a little cooperation and with the proper kind of publicity, we can assist the directors, the officers, the employees and the management of the railway in operating this splendid institution. I should like to move that this committee recommend in their report to the house that a publicity campaign be put on during the next year in order to place before the Canadian people in the proper light the good thing we have in the Canadian National Railways.

Mr. HANSON: Mr. Chairman, I want to associate myself with the suggestions which have been made by Mr. Howard.

Mr. WALSH: Is the motion seconded?

Mr. HANSON: I am seconding it now. He has suggested that a publicity campaign should be established by the Canadian National Railways. Every member of parliament gets yellow, pink, red and white publicity against the Canadian National Railways; but nothing to offset those obstacles which the Canadian National Railways is facing has come to me, at least, as a member of parliament. For that reason, Mr. Chairman, I take great pleasure in seconding that motion. Give us something to offset this propaganda that we are getting from the Pacific coast to the Atlantic coast against the Canadian National Railways. I realize in my humble way that we have just as efficient officials in the Canadian National Railways as are to be found in any other enterprise or any other railway in Canada or anywhere else. We have the facilities for at least looking over what they are doing; and if there are any complaints, the people of Canada have a chance to look into it. As far as the private organizations and the private railways are concerned, we have no chance to look into them. Consequently, when they send out this propaganda against the Canadian National Railways, which I say is a slur against the officials of the Canadian National Railways, and is a slur against our minister and deputy minister of railways, I think—

Mr. WALSH: Will Mr. Hanson read any extracts from both papers that is a slur? Would you read one that casts a reflection on the personnel of the Canadian National Railways?

Mr. HANSON: You will have the floor after I am through.

Mr. WALSH: No, I do not want the floor. I want you to substantiate what you say.

Mr. HANSON: I have read these; and as far as I understand these pamphlets, they are absolutely opposed to the Canadian National Railway. We realize that the Canadian National Railways in some provinces of Canada is not profitable; but the extent of the dominion is such that we have to have pioneer transportation just as we had to have pioneer homesteaders and pioneer prospectors. It is necessary, I think, for the people of Canada to feel that it is up to them to even face a deficit in order to insure that the resources of Canada will be developed; and we cannot develop these resources unless we have facilities for transportation. I say that a publication describing the work that the Canadian-owned railway is doing in Canada should be started, and I take great pleasure in supporting the suggestion that Mr. Howard has made.

The CHAIRMAN: Does anyone else wish to speak on the motion?

Mr. WALSH: Mr. Chairman, I am not rising to oppose anything that has been said. I do not think there is any agitation being carried on by anyone in the Dominion of Canada to discredit the Canadian National Railways. I have not seen that yet; I have seen no proof of it. Those pamphlets to which Mr. Hanson referred have been received by myself and read casually, not carefully, and I have not seen in them anything that would cast a reflection on the officials of the Canadian National Railways or on the Canadian National itself as an operating enterprise.

Those pamphlets give us a picture of the railway situation in Canada. Very unfortunately, in giving that picture with the deficit that the Canadian National Railways have been creating from year to year, it does appear as if they might be directed against that particular railway. But I understand that those pamphlets are issued in the interests of stirring up public agitation in favour of doing something towards settling what is usually referred to as the railway problem in Canada. I think that is the direct purpose of those pamphlets, a stirring of the nest, to use a biblical expression, and not in any way to stir up antagonism towards our public-owned enterprise.

Now, I have been a severe critic of the Canadian National Railways in some respects and, in other respects, I go out of my way to pay them a compliment whenever it is possible to do so, and I have found it possible to do so on more occasions than I have found it possible to be critical. I have never been critical of the management of the Canadian National Railways. Outside of the board of directors who were appointed by the present government, and I refer to the operating officials—

The CHAIRMAN: I hope you include the chairman of the committee?

Mr. WALSH: Absolutely. But the officials of the Canadian National Railways are without superiors in railway operation not only in Canada but in any part of this continent, in my estimation, and I think the Canadian National Railways is well managed and well run, and that it is in our interests to see that that railway is kept to the maximum of its efficiency.

Mr. YOUNG: Then of what have you been critical?

Mr. WALSH: Of the deficits that have been created, and I have been one who has been anxious to do something towards solving the railway problem in Canada, if it is possible of solution, quite opposed to amalgamation, quite opposed to anything that would bring about the disappearance of either the

Canadian National or the Canadian Pacific Railway, because I believe in the future of Canada and I believe that there is a place for both these railways in Canada and that our population will grow to such an extent that both these railways will be inadequate in the future to meet the needs of this country.

I regret the deficit. Seeing a deficit this year of \$54,000,000 causes me to reflect. When the people of Canada see that statement, and when they realize that it means more than \$1,000,000 a week of Canadian money to meet the deficit of this national enterprise, not including, of course, the interest on loans, advances, and so on, from the dominion government and other features that might have been included which would enhance that deficit even more, that is what is causing the people of Canada to reflect. It is not a criticism of the officials of the C.N.R. It is not a criticism of the C.N.R. itself; but it is a criticism of that deficit.

What can we do about it? I think that is what ought to be engaging our attention, and not the suggestion we have before us for consideration at the present time. I consider that the best advertising means the Canadian National Railway could adopt would cost them little or nothing, and that is to let a man like Mr. Fairweather, or others, get out to meetings and organizations and service clubs from one end of Canada to the other and tell the Canadian National story and get it into the press. It costs nothing, and that is news which the press likes to carry. Whenever Mr. Fairweather speaks before a service club or before a Canadian club he gets a good hearing, he gets a good audience. In many cases his speech is broadcast, and sometimes the broadcast covers an extensive field. But in all cases Mr. Fairweather gets an exceptionally fine write-up in all our Canadian papers. If he is speaking down in Moncton his speech is carried almost as heavily in the Montreal and Toronto papers as it is in the papers of the maritime provinces. And that kind of advertising does not cost \$50,000 of the money of the people of Canada, and that is the best kind of advertising that the Canadian National Railways could get. I would urge that on the committee rather than the acceptance of the motion before us.

I do not think we ought to suggest that anyone in Canada is trying to undervalue the real value of the Canadian National to the Dominion of Canada and to the people of Canada; nor should anyone make even the veiled suggestion that the officials, operators and those employed on the Canadian National are inferior to the employees on any other railway or that they are not as anxious to see the success of the Canadian National Railway as those employed on other railways. I think Mr. Hungerford and those associated with him have as loyal a staff, as enthusiastically loyal a staff as they have connected with any business enterprise in Canada, and I do not think Mr. Hungerford has a word of complaint to say about the loyalty and the enthusiasm of those who are associated with him and those who are employed on even the most menial task by the Canadian National Railways. You will find that the Canadian National Railway men are strong for the Canadian National; and the authorities who are administering that railway deserve credit, although I am among those who regret seeing the deficit at \$54,000,000.

I am willing to study any plan or scheme that is put forward to help reduce that deficit. We have to consider this problem with all the other problems that are facing Canada. We have to bear in mind that here is a deficit of \$54,000,000 on railways. There is at least \$60,000,000 on wheat. There is another \$20,000,000 or \$25,000,000 on seed for the western provinces. There are bonuses given in eastern Canada; there is the unemployment relief money of \$40,000,000 or \$60,000,000 a year. We have to bear in mind that this country cannot stand that drain, and we have got to stop it in some way.

If we can find a solution to our railway problem that will help the Canadian National Railway, it might at the same time help the Canadian Pacific Railway, because, after all, we have to bear in mind that the Canadian Pacific is an integral part of this dominion and has played its share in building up

the Dominion of Canada to its present state. If we can do something or find some scheme or plan that will help both railways, we will go a long way towards helping relieve the taxpayers of this country of a burden which they are finding exceptionally heavy.

Mr. Howard has put forward his resolution, and I hope that it has accomplished its purpose. I do not see any reason for pushing it forward. I would far rather he changed his resolution to something along the lines I have suggested. There seems to be connected with the Canadian National Railways a staff of capable men like Mr. Fairweather who could present the Canadian National side of the picture as ably as I have heard Mr. Fairweather present it. I am connected with a service club in Montreal and through Mr. Hungerford I have had Mr. Fairweather in attendance at that service club. We broadcast his message, and I can tell you it was a message worth listening to. I know he got the publicity which that message deserved, and that is good advertising. I hope that that kind of advertising will not only be continued but will be greatly augmented to the benefit of the Canadian National Railways and to the dominion.

Mr. HANSON: The Canadian people are behind the Canadian railways and they realize that we have natural resources, but that in order to develop and commercialize them we have to have transportation. Consequently, I say that this fact should be more widely advertised by the Canadian National Railways.

Mr. BARBER: On page 16, Mr. Chairman, I notice a figure of \$599,680.19 for advertising. I think this is a question that should be left to the board. I am sure that parliament would not turn down any estimate if they required more for publicity or special advertising.

I support Mr. Walsh in his suggestion regarding Mr. Fairweather or others who might go through the country, and I am sure that in our part of the country they would be received very warmly and every facility given them to speak in order to acquaint us with some of the facts concerning this great system. I can assure you also that with the experience I have had in the province of British Columbia and in travelling through that province, I have found on the whole the people are behind the Canadian system to a great extent.

As far as this motion is concerned I think it is a matter for the board of directors, and, if they require more money there is no doubt in the world parliament would give it to them.

Mr. VIEN: Mr. Chairman, I think the motion has served a good purpose. It has brought to the attention of the committee and to the attention of the directors of the Canadian National Railways the value of advertising in an undertaking of this kind as in any commercial or business undertaking. But I doubt if it would be expedient even in the interests of the Canadian National Railway system to go on record as suggesting an addition sum of \$50,000. I am afraid it would defeat its own purpose. Advertising is within the managerial discretion of those in charge of the administration of the railway. If they spent out of the appropriations for publicity and advertising \$50,000 and it appeared in their annual statement next year, I do not believe that any member of the committee would find fault with that. Probably this is already being done to an extent that the managers of the railway deem useful or expedient.

I would, therefore, suggest that the motion, which has served a good purpose in bringing this to the attention of the committee and to the attention of the officials concerned, should be withdrawn.

Mr. McKINNON: Mr. Chairman, unquestionably every person in Canada would like to see the deficit of the Canadian National Railways removed. No doubt the management have done everything possible to do away with that deficit. Mr. Walsh lauded the management very highly and stated that unquestionably they were as efficient as any operating management in Canada

or on the North American continent. If they have not been able to do it, would Mr. Walsh kindly suggest to us where we can get the men who can do away with this deficit?

Mr. WALSH: No. I do not think that is a reasonable question, Mr. Chairman.

Mr. YOUNG: Mr. Chairman, I think there is a good deal to be said about the fact that the good wares of any institution should be made known. I take it there is a good deal of real effort made to make known to the public of this country just what the Canadian National Railway has done. I think perhaps a little more might be done. I was glad to see that recently some members of the staff were talking to institutions of one kind or another here and there and laying facts before the public which I think it well that the public should know. The fact that Mr. Walsh suggests there are not people in this country trying to knock this road does not do away with the fact that people are doing that every day and doing it to the limit of their ability. If Mr. Walsh thinks that these pamphlets are being written in the interests of the Canadian National Railways, of course, that is his privilege. I think the majority of the people of this country who read them will have no doubt whatever in coming to the conclusion that these pamphlets are not written in the interests of the Canadian National Railways.

Mr. WALSH: I do not think Mr. Young has any right to put words into my mouth. I did not say they were being written in the interest of the Canadian National Railways.

Mr. YOUNG: I am putting it in reverse just to see how it sounds.

Mr. WALSH: Do not attribute it to me.

Mr. YOUNG: Mr. Chairman, his statement was that they were not being written against the interests of the Canadian National Railways. I have read those pamphlets, and I take it that they are very directly opposed to the interests of the Canadian National Railways. It may be that there are persons behind the movement who have some notions about unification, amalgamation, or something of that kind, and perhaps if they were here they would say that that is what they have in mind.

But Mr. Walsh starting from a blunder again blundered into what perhaps is the answer, although making a blunder in making that statement. He first spoke about the loss of \$60,000,000 on wheat.

Mr. WALSH: No, I did not say "loss." I said the expenditure of \$60,000,000.

Mr. YOUNG: I was not aware that there was an expenditure of \$60,000,000 on wheat. I am always learning things when I listen to Mr. Walsh.

Mr. WALSH: If you live long enough you will learn a whole lot.

Mr. YOUNG: I have to verify them so much that I find the information is not usually accurate. But that very blunder and the next statement of fact about the money we are spending on unemployment relief and all those things which he enumerated are the very things which show conclusively why not only the Canadian National but both railways are having difficulty, namely, that the business of the country has not been as good as it should be. For many years that very rich part of the country, that part of the country which has produced more wealth in the last thirty years than any other part of the country, has met with adverse weather conditions. We in western Canada have been suffering very severely, and I say that it ill becomes some of the members of this house, in our very severe difficulty, to say that we are getting back a little of the wealth which we gave to the rest of the country during that long period of time. I say it ill becomes members of this house or anyone inside or out of this house to say that kind of thing. But it does go to illustrate just why these roads are in the condition in which we find them; it just goes to

show why this whole country has suffered some of the difficulties through unemployment and other things which it has suffered. We have had too much fair weather in our part of the country; if we had a little rain we would do much better. I am of the opinion, and I think Mr. Walsh will agree with me, that it is due to the things which I have been suggesting and he has been suggesting that we have this great deficit.

I think in 1926 and 1928 the Canadian National Railways not only paid all the interest due to the private investors but also a portion of the capital loaned by the dominion government for two years. Every member in this house knows that we have had a world-wide depression, and I am bound to say this, that as a result of the report put before us we find that the decrease in revenues of the Canadian National Railways operating in Canada has been immeasurably small in comparison with the Canadian National Railways operating in the great country to the south of us, which shows that in Canada we have not been nearly so badly off as they have been across the line. A lot of our difficulty this year is due to the fact that we have lines in the United States. Now, I would not advocate for one moment that those lines be taken up or sold because we must recognize that in good times they are immense feeders to the Canadian part of the system. When we take all those things into consideration I think we should be very grateful that the situation is not worse. As Mr. Hanson has said, the Canadian National Railway has primarily to be run in the interest of the whole country. We must have these pioneer lines as a means for developing our country, and we must bear in mind the fact that they must be operated primarily at a loss at the outset; but personally I feel we can look forward now to a distant future when we will have this system on a basis that we will not be worried about details like these, we will not be worrying about deficits. These deficits will disappear and the railway will begin producing revenue, and then we will no longer need to worry about deficits. Now, with regard to publicity, there are various ways of getting it. I am very fond of public speaking, and I would be happy to do my share; but I think, and I have thought for a good long time, that the management of the road would be well advised to send out any officer on their staff who is capable of giving facts about the railway and its operation, such as I have seen in the press, as regards details given by some of the members of the management hitherto. I think it is a good thing that the work of the road and its purpose should be made better known to the public.

The CHAIRMAN: You all realize, of course, that this question is out of order; but it is perhaps better to have it here than in the House of Commons.

Mr. KINLEY: Mr. Chairman, might I say a word?

The CHAIRMAN: Certainly.

Mr. KINLEY: The Canadian National Railway management is an independent board of directors and they pride themselves on their independence and carry on their business without undue interference from any outside source. I think that a resolution of this kind might be misunderstood at the present time. If they want to advertise their business they have a right to do so, but if they think that they will get clear of the criticism to which any large business in this country is always subjected that way they are making a big mistake. In this country, as in all other countries, particularly on this side of the water, business, particularly big business, is not making profits. We can all be quite sure that the railway problem is a serious problem and that the people of the country are not afraid of talking about it. There is a lot of misconception, it is true; and there is a lot of propaganda. It may be that the people who own other railways would like us to have them too, and we must look out for that. However, I do not think that we should pass

a resolution of this kind telling the railway that they should spend a certain sum of money on advertising. I am not so enthusiastic about the mentality of the Canadian National Railway management, because I come from the coast and it seems to me that their minds sort of run inland instead of out to other countries looking after our export trade. You all know the great amount of missionary work that we did in developing a service to Australia and other points overseas, and I was very much disappointed that that end of our national enterprise was allowed to drop.

Hon. Mr. HOWE: You could hardly blame that on the Canadian National, the government owned those ships.

Mr. KINLEY: That makes it just that much worse for the government. Now, the English people very quickly picked up that part of the business. Why are not our seaways making progress? There is a real opportunity there. We have got a lot of hotels, and they are unsurpassed, and when you have something that is unsurpassed in quality, as is the case with our hotel system in this country—they are not surpassed anywhere—they become a paying proposition, with the railway running second. In the same way, the Canadian National-West Indies Steamship Service is forging ahead. They are not running second, as you have seen by the report they have submitted. You have heard a lot of people saying that we should amalgamate the railways of Canada; they do not tell you that you should amalgamate the shipping. The Canadian Pacific will not give up their shipping on the Atlantic or the Pacific coast. They regard that as an asset. And from my point of view, I represent men who can only work on the sea, and when I see, as I said before, that we have a great unemployment problem in this country, why not hire our own men? We hear a lot of talk about the youth of this country, that they are the greatest problem that we have, yet in the Financial Post we see a report with respect to the Canadian Pacific Railway that in all their shipping service in one part of the country they had only one Canadian. I ask you, is that seriously trying to help solve the unemployment problem of this country? Why, gentlemen, I could send a telegram to my riding and have 300 boys who are ready to go to sea and man these ships without that company having to hire any Chinese or Japanese or people of that kind. It is time for us to start in and do something. There is nothing else that these young fellows from along the rocky shores of Nova Scotia can do except go fishing or work on the sea. There was a time when the wooden vessel was the best on the sea, the best in the world; that was in the good old days of wooden ships and iron men, and when our ships were known throughout the world. We went down because we got in the way of progress. The diesel engine has brought back the wooden vessel to a large extent, and I think there is some revival of shipping evident in that part of the country. I can tell you that we will never have prosperity in Nova Scotia until we are able to again make use of the sea, until we restore a measure of the shipping which we once enjoyed. And I want to say this, the policy of the Canadian National Railway has been one of restriction, not one of development, of the trade of Canada. The only way you can hope to balance the trade of Canada is through the exchange of goods, and the only way you can promote the exchange of goods is through transportation by sea. The real solution to this problem which we are facing is through the development of trade, and by carrying the goods that we produce.

Mr. HANSON: Mr. Chairman, on a point of order: I agree with the hon. member in what he says, but he is absolutely out of order; he is talking about the sea.

The CHAIRMAN: I think everybody is out of order at the moment, but he is no more so than anybody else. As far as the motion itself is concerned, I think it is out of order because no private member has the right to ask the

government to spend any specific sums of money; that can only be proposed by a member of the government. Unless the minister wants to assume responsibility for this motion I think it is completely out of order.

Mr. KINLEY: Whether I am out of order or not—

The CHAIRMAN: I did not say that.

Mr. KINLEY: Whether I am out of order or not I am very much surprised that my colleague from Prince Rupert, who is a Viking of the sea, should say that I am out of order when I am speaking for the benefit of those who live by the sea. I just want to leave that thought with you. I just want to leave that thought with you when we are talking about unemployment in this country. We say that the government should do this and do that. Is industry in this country doing its share? Is a transportation company doing its share when they hire outsiders and allow our own Canadians to remain idle? That is a thing which I think should be brought to the attention of this committee; and I also think that the Canadian National should again get into the business of carrying our goods to foreign ports; they should follow up the missionary work we did in developing an export trade with Australia. If they do not, what will happen? Just as soon as we interfere with other interests in other parts of the world they raise their freight rate to a point where the cost of carrying interferes with our trade. I think if the missionary work had been followed up it would have resulted in substantial and profitable sums for the Canadian National Steamships. I think that service should be extended as part of the transportation system of this country; and perhaps if the railway had always kept these ships they could stand their deficits a little better now and in the future, because they would have a profit on that part of the business to offset the deficit on the railways which are running second place in respect to earnings.

Mr. HOWARD: Mr. Chairman, I should be happy to comply with your request, and with the permission of my seconder I have no objection to withdrawing my motion. However, I disagree with the view that has been taken. This committee was set up to look into these four things and make any recommendation with respect to any part of them to the House of Commons they might wish to. As I said, I am prepared to withdraw my motion, but before I do so I just want to say this, that I am just as worried as any man in Canada about the \$50,000,000 deficit of the Canadian National. I happen to be one of the biggest taxpayers, and I have been through pretty tough times myself. But I want to tell you this, boys, you have got to face facts. Look at the \$65,000,000 for pensions for soldiers; nobody finds any fault with that. Look at the \$30,000,000 for unemployment; nobody criticizes that except to say that we have men unemployed. They do not criticize the amount of money; in fact they want us to spend more even at a time when we are paying \$160,000,000 on our national debt. But I say that when a man singles out and publicizes across Canada that the deficit of the Canadian National will bankrupt Canada, it is time that the members of parliament, the elected representatives of the people, should support a move to pay for propaganda to counteract such insidious, underhanded, dirty propaganda as that which is now being published in Canada.

And now, I come back to Mr. Walsh's suggestion that what we need is publicity.

Mr. WALSH: I thought you were on my proposal.

Mr. HOWARD: He knows a little bit about the way in which the western part of the United States was built up, how they built railroads all over the great west and started a campaign for everybody to go west in the United States; and when the depression came along about 35 or 40 years ago they wiped out three billion dollars of railway securities through liquidation. This

country, on the other hand, has taken over every single piece of railway line in the country, and has backed the security holders. Over there the people who had their money in these railways in good faith lost it. Had the country there guaranteed the \$3,000,000,000, it would have cost \$150,000,000 a year just to carry the load; and we are carrying a load of about \$50,000,000 deficit this year. These are some of the things that strike me. I do not think we have the right to examine these reports and pass on them without passing on that; they should make more effective use of publicity. You know how it is. If Mr. Fairweather goes down to New York on a business trip everybody at once hears that he is neglecting his work on the Canadian National. If the president of the road goes down to Florida or to somewhere else to consult with some outstanding business man, or if any of the officials of the road go away for needed recreation they are immediately subjected to the criticism that they are neglecting their responsibility as officers of the road. These men simply must have some rest and some recreation, yet they cannot go out to the golf-links for a game without laying themselves open to criticism. But I want to tell you that they have got to let the people of this country know about the job they are doing, and they have got to know something at first hand about what is going on in this country. Now, gentlemen, I am not going to go any further. With the consent of my seconder I will withdraw my motion.

The CHAIRMAN: The only trouble with your motion was the fact that you mentioned a specific amount; otherwise it was quite in order.

Mr. HOWARD: The Canadian National railway management would naturally advertise its wares. Any business man would try to correct the insidious underhanded campaign that is being deliberately put over the people of this country. I doubt if they have the right effectively to meet that kind of thing unless this committee says they want you to do it. That is the purpose which I had in moving my motion. However, if my seconder is agreeable I will withdraw my motion.

Mr. HANSON: I am agreeable to that, but I still maintain we should have it; that the Canadian National railway should spend more money on advertising what they have done and what they are trying to do at the present time.

Mr. HOWARD: We will support them in any way at all that they think will be effective in increasing their publicity.

The CHAIRMAN: There is no objection that I can see to the committee when preparing their report indicating in the report that they are in favour of further publicity so far as the road is concerned, but I would suggest that it do not take the form of a motion.

Mr. WALSH: I am in favour of that if it is publicity, not advertising.

Mr. DEACHMAN: I want to make a remark or two in regard to Mr. Walsh's statement. We have had a good many lengthy studies of the whole railway problem, but let me assure you that we cannot solve the problem in the railway committee room. There is such a thing as a volume of national traffic, or traffic of the nation, in the Dominion of Canada. The task of the railroad is to handle that, and to handle it efficiently; but the claim is made, I think it is quite justified and I am quite willing to support it, that the Canadian National Railway is an efficient railway; but the total volume of business in the Dominion of Canada is much less than it was a few years ago. I looked up these facts before I came in, and as I recall them now during the period of depression the earnings of Canadian agriculture were \$1,600,000,000 less than they were if you take them on the basis for comparison of the year 1930. Now, when agriculture is in that condition nothing in the world will provide an abundant prosperity for the railways operating in the Dominion of Canada. So I suggest to you now that if we want to solve this problem it will not be solved in the railway committee room, it will not be solved by the study of an operating profit;

there is no solution of the railway problem in the Dominion of Canada along those lines. The railway problem will be solved when we restore the national income back to the level of 1928, or 1929, or probably 1926. But then in this Dominion of Canada, if we move out and have confidence and faith in our ability, there is a possibility of increasing that beyond the volume of 1926, 1928 and 1929. And when that is done what happens to the railway problem? It disappears, as it did in those years. Our fundamental problem is an economic one, one of increasing our national income, one of expanding our volume of business, increasing our freight. Let me give you an illustration: In 1937 our exports were approximately \$480,000,000. I sat in the House of Commons, in the gallery, listening to the speeches of the prominent leaders who said there was no possibility of developing Canadian trade. In 1935 the exports had risen to \$676,000,000. I mention that fact because my friend Mr. Walsh is not of the political faith that I am and I do not want to mention years which would seem to label that progress as the result of Liberal policy alone. But, in 1938 the exports of the Dominion of Canada were \$1,070,000,000, and if four or five hundred million more were added to that volume of exports, and that is not beyond the bounds of possibility, this whole railway deficit problem would entirely disappear. I ask you, would there then be any problem for the gentlemen who sit before us? It is a problem of carrying traffic. They can do that. Let us by our attack upon our real national problems, which are not the railways, but the problems of production and of extension of markets—let us by an attack upon those problems settle our railway problems, and then it is up to those men by efficient operations to bring down the deficit; and that will follow as naturally as sunrise follows sunset.

The CHAIRMAN: You will all agree that we have heard some very able speeches, some of the best we have ever heard in the House of Commons. I am very grateful that they are on the record.

Mr. WALSH: Before we adjourn I would like to refer again to these reports. There is one item that I discussed last year and I would like to refer to it briefly. I just wanted to mention it at the time. The Minister of Transport was good enough to refer to it last year. I refer to the problem of that island province, the cradle of confederation. I brought up before this problem of the transportation facilities of that province. When you leave the mainland at Sackville there seems to be no real supervision of that line to Charlottetown. They go along in the performance of their duty as if it did not matter whether they got there on time, or the next day, or when they left. And the facilities, as far as the ferry is concerned, are not what they should be, and it is due principally to lack of close supervision along that line. I refer to the railway ferry which runs between Borden and Tormentine.

Mr. HUNGERFORD: What is wrong with the ferry service?

Mr. WALSH: I will tell you what happened. I went down there last year and we landed at the cape, and we were held at that station for three quarters of an hour at least. I am not exaggerating. For three quarters of an hour we were held at that station. The ferry was in. What in the name of goodness they were doing I do not know. Then finally we got on the ferry, and we finally arrived at Charlottetown one hour and ten minutes later.

Hon. Mr. HOWE: Were you on your holidays?

Mr. WALSH: Last year I asked the management to see if they could not correct it this year, but they have not corrected it yet; and I am asking them, not in my interest, because after all I can take my own car down there and probably ferry at a different point where the schedule is more regular—but in the interests of the island, to see that this is corrected. They have produce to ship from there. They want tourist facilities and they have to have them. The prosperity of that island depends upon the facility with which they are able

to reach the mainland, the facility with which they are able to reach the main line; and I am urging the Canadian National Railways, not in a spirit of criticism but in a spirit of helpfulness towards the people of that island, that they give them more consideration than they are apparently receiving at the present time. There appears to me no reason why that train arriving at the cape should not be immediately placed on the ferry and the ferry immediately started for Borden. There is no reason, to my mind, why that should not be done; nor do I see any reason why the schedule should not be so arranged that when freight and automobiles have to be put on that ferry, they would be put on first, in order that the ferry may be waiting there to take that train, because that is the important feature of the trip so far as the island is concerned. In that way you will lessen the time and you will greatly improve the facilities.

Then there is another point I wish to mention. I am hoping that the Canadian National Railways may be able to make some arrangements, through the government, whereby the cost of carrying trucks and facilities of that nature from the island to the mainland and the reverse will be somewhat cheapened. They find it a little expensive at the present time. They land produce in that market, and it is increased in value due to the expense of the trip. I should like very much for them to see if it is not possible to reduce that expense.

Mr. YOUNG: On how many occasions did you find this delay, Mr. Walsh?

Mr. WALSH: Every time I have been down there. I have been down there three years now. I landed there on Thursday night, and the next night after I landed there—on Friday night—the train was two hours and five minutes late. That was the night after I arrived.

Mr. YOUNG: Was the train late on the other side?

Mr. WALSH: No, it was not late. It is delay on the ferry, either at one end or the other, or both. There is another point I should like to bring up. We have a deficit on the Canadian National Railways and it is most unfortunate. We regret it and we hope it is going to be decreased in due course—and I have no doubt it will be. I was wondering if the government could not spend some money out of that deficit in order to help reduce the deficit—spend some money in bonusing the shipment of grain and the shipment of package goods through the ports of Saint John and Halifax. Those ports are available, particularly Halifax, which is, I think, one of the finest harbours we have on the North American continent and one of the harbours that is least expensive to run. I feel that the amount of freight we put through that harbour is so negligible that it is almost forgotten. I should like to urge the possibility of bonusing freight going out of those two harbours. In that way it would increase the haulage for the Canadian National Railways to those ports, Halifax in particular; and increasing their revenue will decrease their deficit. In that way the government will about split even, and it will give those two ports a better break than they are getting at the present time. I make this suggestion in good faith, and I am hoping that they may receive more consideration from the authorities most concerned.

Mr. HUNGERFORD: I hope when you come down this summer you will have a more favourable experience, Mr. Walsh.

Mr. EMMERSON: I did not intend to say anything, but in the light of what Mr. Walsh has said, I feel that something should be said in defence of the service between Sackville and, at least, till the train gets on the boat. I do not see that service once or twice or three times a year, I see it winter and summer, spring and fall. I am on that train a good deal. I am down in that section. I admit there are times when the trains are delayed and when the boats are delayed; but as far as the service is concerned, particularly to those with automobiles, I do not know where you can go to get a cheaper trip or as quick a change from the highway to a boat and off as you will find right on

that service. It does not take more than five minutes at the outside to go from the approach to the dock into position on the boat. You simply run up on the ramp and get into position. As far as the service is concerned, in the summer time there are two regular trips by train; but if approaching there by automobile, there are four times during the day and sometimes six when you can go across there by motor car. I think as far as the trainmen are concerned, the same type of men are there as are on the main lines. There are delays at times. But I think it is rather unjust to say that the service is not good. That is all I have to say.

Mr. KINLEY: I always found it a good service. I go over there very frequently. But I cannot understand how they lose so much money.

The CHAIRMAN: They are afraid of Mr. Walsh.

Mr. HOWARD: Mr. Walsh should have gone over in the old days when they put the automobile on the car and switched the car on to the boat.

Hon. Mr. HOWE: I think I can explain why we lose money. It is because we give such a good service. We have two very fine boats there on that service. Up until two years ago one boat was operating at a time. At that time they wanted a more frequent service. We fitted up a second boat; and now at times of congestion in the summer we run both boats across, giving as many as eight trips a day to serve the automobiles as well as the trains. As far as subsidizing automobiles goes, the cost of an automobile used to be \$7 a trip; it has now been reduced to \$3. I doubt if \$7 began to pay the cost of the operation.

As far as subsidizing wheat down to Halifax and Saint John is concerned, I am glad to hear Mr. Walsh suggest that; because the extra wheat that would go down there would have to be taken away from his port of Montreal. But since he has approached it in such a generous spirit, I may say that we do subsidize it very heavily.

Mr. WALSH: We do not ship wheat in the winter time.

Hon. Mr. HOWE: Yes; but you store it and ship it the next spring.

Mr. WALSH: We take it from the head of the lakes.

Hon. Mr. HOWE: I may say that wheat to Halifax and Saint John is heavily subsidized. The rate from Georgian Bay to Halifax is one cent per hundred pounds, I think, more than the rate from Georgian Bay to Montreal. As far as the Canadian National is concerned, I am sure that every car of grain that goes to Halifax represents an actual out of pocket loss to the railway. The movement of wheat through Saint John and Halifax is largely a matter of supply and demand, and is a matter of competition between routes, existing all winter routes, chiefly from Vancouver. This year practically all the wheat that has been shipped for export after the close of navigation in Montreal, has been shipped through Vancouver, which is purely a matter of dollars and cents. It happens that the ocean rate out of Vancouver has been abnormally low. But I am sure the Canadian National Railways and the government are doing everything they can to make these maritime ports as prosperous as conditions can possibly warrant. As far as every class of freight except wheat is concerned, the record for the maritime ports has been exceptionally good during the last three years. Both Saint John and Halifax have had their biggest years, as far as the shipment of freight is concerned, during the last three calendar years.

Mr. KINLEY: Mr. Howe, in the accounting do they give this ferry credit for the rolling stock it carries back and forth? Are they allowed for that?

Hon. Mr. HOWE: Yes. We credit the railroad for the haulage of rolling stock.

Mr. KINLEY: You credit the ferry, you mean?

Hon. Mr. HOWE: Credit the ferry; and they are credited with their direct revenue from freight and passengers.

Mr. KINLEY: Including any freight that is in the car?

Hon. Mr. HOWE: Yes; it is paid for on the regular line haul on the freight and rolling stock.

Mr. KINLEY: I cannot see how they lose that much money.

The CHAIRMAN: Mr. Hungerford would like to address the committee.

Mr. HUNGERFORD: Mr. Chairman, Mr. Minister and gentlemen, it would be quite inappropriate for me to comment upon some of the matters that have been discussed here to-night. I simply rise to express on behalf of the staff—official and otherwise—of the Canadian National Railways, deep appreciation of all the kind things that have been said in respect of the staff of the Canadian National Railways. I can assure you, from a very thorough knowledge of the situation, that you have a most enthusiastic, loyal and capable staff on the Canadian National Railways—excepting myself. I have worked with these men for years. Railway work has been my life work. I think perhaps I know a little something about operation, and I would not ask for a more capable and more enthusiastic staff than you have. I think the Canadian people have been fortunate in having a staff of this calibre, and with this degree of enthusiasm. All the kind things of which you have said tonight are very, very deeply appreciated; and they will serve as an inspiration to the entire staff to try to do still better in the future.

The CHAIRMAN: Hear, hear. Gentlemen, the committee is adjourned.

Mr. HANSON: When are we adjourning to?

The CHAIRMAN: The call of the chair.

The committee adjourned at 10.10 p.m. to meet again at the call of the chair.

APPENDIX

(Information supplied at the request of Mr. Walsh)

CANADIAN NATIONAL RAILWAYS

FREIGHT AND PASSENGER SERVICE REVENUE
YEARS 1932 TO 1938

Year	Freight service revenue	Passenger service revenue	Total revenue
1932..	\$127,401,176	\$33,702,418	\$161,103,594
1933..	118,792,171	29,727,571	148,519,742
1934..	133,269,499	31,633,002	164,902,501
1935..	141,070,220	32,114,282	173,184,502
1936..	153,581,700	33,028,789	186,610,489
1937..	162,539,526	35,857,083	198,396,609
1938..	147,834,755	34,406,968	182,241,723

No figures are available which correctly reflect the segregation of operating expenses and operating ratios between freight and passenger services.

Capital Investment in Freight Train Cars and Passenger Train Cars

	Freight train cars	Passenger train cars
As at December 31, 1932..	\$245,053,259	\$69,350,467
“ 1933..	242,509,732	69,237,863
“ 1934..	229,921,969	68,804,746
“ 1935..	211,354,717	65,181,698
“ 1936..	212,445,353	65,013,733
“ 1937..	222,036,963	68,856,636
“ 1938..	224,137,084	70,991,593

CANADIAN NATIONAL STEAMSHIPS (PACIFIC COAST)

CONDENSED INCOME STATEMENT INCLUDING PROFIT AND LOSS

YEARS 1937 AND 1938

	Year 1937	Year 1938
Total revenue	\$1,317,116	\$1,355,731
Total expenses	1,507,145	1,480,691
Net revenue	\$ 190,029	\$ 124,960
Taxes	55,654	55,712
Operating deficit	\$ 245,683	\$ 180,672
Other income (net debit).....	25,266	25,176
Net income deficit.....	\$ 270,949	\$ 205,848
Profit and loss items (debit or credit).....	166,372	502,696
Net loss	\$ 437,321	\$ 708,544

NOTE.—The above results do not include depreciation and interest on investment. The statement for the year 1936 previously furnished included, in addition to the result of operating the Pacific Coast services, lay-up expenses for vessels not in service, the *Prince David* and *Prince Henry* in cruise service on the Atlantic and the docks at Seattle, Victoria and Vancouver, the figures for 1937 and 1938 have been prepared to correspond. The result of the services actually operated on the Pacific Coast, comprising the Northern British Columbia Service, the Alaska Service, Queen Charlotte Islands Service, the *Prince Charles* and *Prince George* in Tramp Service, and the *Prince Robert*, *Prince Rupert* and *Prince George* in cruise service, was, in 1938, a loss of \$112,785 and in 1937 a loss of \$14,097.

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Canada. Railways and Shipping,
Standing Committee, 1939

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

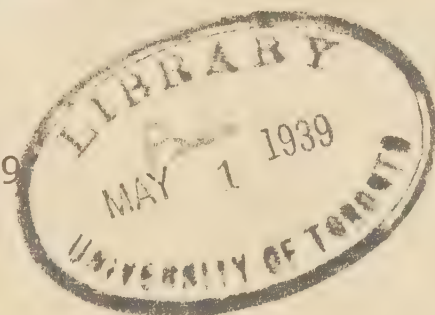
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS

No. 3

Tuesday, April 25, 1939



INCLUDING FINAL REPORT

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1939

MINUTES OF PROCEEDINGS

TUESDAY, April 25, 1939.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met in camera at 4.45 p.m. Sir Eugène Fiset, the Chairman, presided.

Members present: Messrs. Bothwell, Cameron, Elliott (*Kindersley*), Emmerson, Ferland, Fiset (Sir Eugène), Hanson, Howard Howden, Lockhart, McKinnon (*Kenora-Rainy River*), Ross (*Middlesex East*), Vien, Walsh, Young.

In attendance: Mr. Smart, Deputy Minister of Transport.

Written answers were received from Canadian National Railway officials to questions asked at the last meeting by Mr. Deachman and Mr. Hanson.

Ordered,—That the said answers be printed as an appendix to this day's proceedings.

At the request of Mr. Kinley, a member of the Committee, the following changes in the printed record of evidence were authorized:

Page 108. Sixth last line. Delete "big" and substituted "railway".

Page 109. Line 28. Delete "that in all their shipping service in one part of the country" and substitute "that in one of their merchant ships as a part of the crew".

Page 109. Line 40. Delete "a large" and substitute "some".

The Chairman presented a draft report which was discussed, amended, and adopted as amended. (*see Third Report*).

The Committee unanimously endorsed Mr. Vien's suggestion that gratitude be expressed to the Chairman for the courteous and efficient manner in which he had discharged his duties.

The Committee adjourned *sine die*.

JOHN T. DUN,
Clerk of the Committee.

REPORTS TO THE HOUSE

FRIDAY, April 21, 1939.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

SECOND REPORT

On April 4, 1939, the House ordered,—

“That the annual budget of the Canadian National Railways and Canadian National Steamships, tabled herewith, and the annual reports laid on the Table of the House on March 30, 1939, be referred to the Standing Committee on Railways and Shipping, together with the following votes:—

442 Maritime Freight Rates Act, Canadian National Railways Eastern Lines.. . . .	\$2,000,000 00
443 Maritime Freight Rates Act, railways other than Canadian National Railways.. . . .	800,000 00
454 Canadian National (West Indies) Steamships Limited, capital advance.. . . .	20,000 00

from Main Estimates for the fiscal year ending March 31, 1940, as tabled on January 27, 1939; also

588 Canadian National Railway Company.. . . .	\$43,750,000 00
589 Prince Edward Island Car Ferry and Terminals.. . . .	327,000 00
590 Trans-Canada Air Lines.. . . .	488,941 00

from the special supplementary estimates for the fiscal year ending March 31, 1940, tabled March 31, 1939.”

The reports laid on the Table of the House on March 30, 1939, referred to above, were:—

1. Annual Report of the Canadian National Railways System for the year ended December 31, 1938.
2. Annual Report of the Canadian National (West Indies) Steamships Limited for the year ended December 31, 1938.
3. Annual Report of the Directors of the Trans-Canada Air Lines for the year ended December 31, 1938.
4. Annual Report of the Canadian National Railways Securities Trust for the year ended December 31, 1938.
5. Report of the firm of George A. Touche and Company, Auditors of the Accounts of the Canadian National Railway System for the year ended December 31, 1938.

Your Committee has considered the above Budget, Reports and Estimates, and approves of them.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

WEDNESDAY, April 26, 1939.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

THIRD AND FINAL REPORT

In a report made to the House on April 21, 1939, your Committee indicated approval of the annual budget of the Canadian National Railways and Canadian National (West Indies) Steamships, and of the various reports and estimates referred for consideration.

The following conclusions have been reached after examination and discussion of the said budget, reports and estimates, and from evidence taken in respect thereto.

Canadian National Railways

The decline in business activity that commenced late in 1937 and continued throughout the greater part of 1938 is reflected in decreased revenues for 1938. Gross operating revenues amounted to \$182,241,723, being \$16,154,886 or 8·14 per cent lower than in the previous year. Income from the lines of the Company in the United States was seriously affected, showing a 23 per cent drop, as contrasted with a decrease of 5 per cent in the Company's lines in Canada. The traffic trend in 1938 is indicated by the fact that in the first nine months the decrease was \$15,737,865, whereas in the last quarter it amounted to \$417,021.

Other decreases in revenue in 1938, contrasted with the returns for 1937, were: freight 9·1 per cent; passenger 4·5 per cent; express 5·7 per cent; commercial telegraph 8·4 per cent; switching 17·6 per cent.

Operating expenses decreased \$4,613,546 or 2·55 per cent compared to 1937. This curtailment was effected despite an increase in wage costs due to the restoration of basic wages in Canada, and of wage increases in the United States, which increased 1938 expenses as compared to 1937 by \$6,082,000, and of increased prices of materials, which increased expenses by \$900,000. Apart from these features, there was a reduction in operating expenses of \$11,600,000 as compared with the previous year.

The net operating income from hotel operations was \$226,014, an increase of \$25,927 over 1937.

The cash deficit for 1938 was \$54,314,196; in 1937, it was \$42,345,868.

Maintenance expenses have been kept at a minimum; and, having regard to the volume of business to be handled, the property and equipment are in good condition.

Last year your Committee reported that the consensus of opinion was that work on the Montreal Terminal Development should receive further consideration. Construction has now been resumed, but on a substantially modified plan from what originally decided upon. A detailed statement was furnished by the National Railways giving reasons for their resumption of the work, a general outline of the present plans, and the advantages accruing from the use of the new passenger terminal. Following a wide discussion by the members, it is of the opinion of your Committee that the best interests of both the public and the National Railways will be served by construction of the new terminal, and that work should be proceeded with until the project is completed.

Evidence was taken in regard to the abandonment of branch lines operated at a loss to the railways. The ultimate decision as to whether or not public convenience and necessity can be properly looked after upon the abandonment of a railway branch line is determined not by the railways themselves but by the Board of Transport Commissioners. Thus, curtailment of the deficit

by the management of the National Railways is limited only to the operating efficiency attained. Much is heard regarding the annual deficits of railways; but consideration must be given to the benefit to the territory served by a branch line, as well as to the country as a whole.

The new hotel at Vancouver will be opened on May 25, 1939, and will be under the joint management of the two railway companies. The existing Canadian Pacific Railway hotel at Vancouver will be closed on that date.

The possibility of obtaining some financial relief from the Perpetual Securities of the Canadian National Railways in the hands of the public was again discussed and your Committee is gratified to learn that some action has already been taken by the Government, following the recommendations of last year. Your Committee again urges that the Government explore all avenues of approach to this important problem.

Your Committee discussed at some length the stress that is generally placed upon the Canadian National Railways annual deficit without due consideration being given to the real position of the National Railways in the national economy. The Committee feels that this situation is of sufficient importance to be brought to the attention of the Government, and the consensus of opinion is that steps might well be taken to provide the Public with more information as to the national importance of the service provided by this vast railway transportation system.

Canadian National (West Indies) Steamships Limited

The operating revenues of the Company indicated further improvement during the year 1938. Both freight and passenger traffic showed increased revenue. It is to be noted that after payment of bond interest, but before depreciation, there was available the sum of \$276,239 to be paid the Government in reimbursement of interest on advances as compared with an amount of \$188,537 in 1937.

Trans-Canada Air Lines

The year 1938 was a period of organization and development. Operation headquarters were located at Winnipeg and a training school was established for pilots, despatchers and mechanics. Stewardesses were employed on the Vancouver-Seattle run from July, 1938. In anticipation of regular passenger service, a traffic department was organized with officers stationed at Montreal, Winnipeg and Vancouver. Employees of the permanent staff must meet high physical and educational standards, and an effort has been made to hold the personnel down to a minimum, flexible organization. Being part of the Canadian National System, the duties relating to publication, advertising, legal and accounting activities devolve upon the railway officials, thus effecting economy.

\$3,200,000 has been raised by the issue of capital stock. It is expected that that amount will be increased in 1939 to \$3,750,000 which, together with \$1,250,000 reserved for participation in the projected Trans-Canada service will absorb the authorized capital of \$5,000,000.

After providing for all operating costs, including depreciation and interest on invested capital, the income account shows a deficit of \$818,025, which is slightly under the amount of \$830,000 appropriated by Parliament.

A mail contract providing for a rate of sixty cents per mile was executed in December, 1938, to cover the initial period from July, 1938, to December, 1939. The revenue from this contract, together with a 50 per cent load factor, will, it is estimated, cover operation costs.

A copy of the evidence taken is tabled herewith.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

APPENDIX

Answer to Question by Mr. Deachman.

CANADIAN NATIONAL RAILWAYS (ALL-INCLUSIVE SYSTEM)
PAYROLL COST PER 1,000 TRAFFIC UNITS—1926 TO 1938 INCLUSIVE ADJUSTED TO
1926 WAGE RATES AND TRAFFIC DENSITY

Year	Payroll Charged to Oper. Expenses (Thousands)	Total Traffic Units (See Note) (Millions)	Payroll Per Thousand Traffic Units		
			Unadjusted	Adjusted to 1926 Wage Rates	Adjusted to 1926 Wage Rates and Traffic Density
1926..	\$ 139,052	24,202	\$5 75	\$5 75	\$5 75
1927..	144,825	24,474	5 92	5 60	5 62
1928..	154,046	27,664	5 57	5 26	5 49
1929..	155,149	24,199	6 41	5 89	5 85
1930..	143,348	20,553	6 97	6 39	5 94
1931..	126,951	17,207	7 38	6 88	5 96
1932..	99,693	14,876	6 70	6 74	5 38
1933..	89,631	13,545	6 62	6 92	5 24
1934..	91,987	15,119	6 08	6 48	5 19
1935..	96,815	15,819	6 12	6 22	5 06
1936..	102,534	17,308	5 92	5 97	5 09
1937..	108,301	18,025	6 01	5 90	5 12
1938..	107,870	17,180	6 28	5 81	4 90

NOTE.—“Traffic units” equals the sum of total revenue ton-miles, and passenger miles multiplied by three.

Dept. Research and Development, C.N.R.
Montreal, April 24, 1939.

QUESTION ASKED BY MR. OLAF HANSON, M.P.

	Number of Employees—Year 1938		
	Canadian Lines	U.S. Lines	Total
1. Number of executives and General Officers with rank of Gen. Supt. or higher..	71	8	79
Number of all other employees..	66,104	8,770	74,874
Total Number of Employees..	66,175	8,778	74,953
2. Number of non-scheduled employees receiving salaries of \$3,000 per annum and over..	1,062	240	1,302
Number of all other employees..	65,113	8,538	73,651
Total Number of Employees..	66,175	8,778	74,953

NOTE.—Canadian Lines figures include representatives of Canadian Lines located outside Canada and certain Executives and General Officers havig jurisdiction over both Canadian and U.S. Lines.